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Ukraine

Livestock and Products Annual

Report

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Report Highlights:
Pork production in 2015 is expected to decrease by 4 percent, influenced by the ongoing political and economic crisis and subsequent decline in consumer demand. Similarly imports of pork will also drop by over 80 percent due to currency devaluation and consumer re-orientation to more affordable poultry meat. All exports of pork to Russia are expected to cease completely. Production of beef will resume with a slight decline following problems in the dairy market caused by Russia's import ban on Ukrainian dairy products. Beef imports will also decrease considerably.

Data included in this report is not official USDA Data. Official USDA data is available at http://www.fas.usda.gov/psd

Executive Summary

Pork production is expected to decrease in both 2014 and 2015 as a result of plummeting demand and the political and economic crisis in the country. All investments (significant in recent years) into pork production will slow down, thus undermining future growth perspectives. New projects are likely to be put on hold while producers concentrate on cost saving measures. The decrease is expected for both commercial-scale and household pork production. Household income is less elastic, so they feel the economic pinch much faster; immediate impacts also tend to be sharper.

Total bovine headcount is expected to decrease after some stabilization in the last two years. The decrease will be driven by a drop in fresh milk prices as the majority of beef produced in Ukraine is mainly for dairy. Specialized beef cattle as a subset of the total cattle population remain insignificant. Profitability in beef production remains weak. The largest drop is expected in non-specialized commercial farms where milk production is considered an auxiliary enterprise. Milk prices are expected to remain low in 2015 due to a Russia-imposed dairy product import ban. Since August 1, 2014, Ukraine is no longer eligible to export cheese and milk powder to Russia, thus losing a $353-million market. Animal population contraction will be followed by a short-term meat production increase in 2014.

Significant currency devaluation observed in early 2014 will have a damaging impact on pork and beef consumption. Although substantial currency devaluation gave local producers a temporary advantage over their foreign competitors, in fact, the economic crisis brought about more challenges than benefits to local meat producers. While many consumers will be priced out of beef and pork in 2014 and 2015, poultry will remain the most affordable animal protein on the market. Large poultry producers anticipate strong consumer demand in the domestic market and are preparing accordingly.

Beef and pork imports are expected to decline significantly in 2014-15 due to the currency devaluation. Brazil will dominate the pack of major exporters and U.S. suppliers will likely occupy 10-12 percent market share. In 2014, the European Union (EU) granted market access to Ukrainian beef and pork exporters under a Tariff Rate Quota (TRQ) system. None of the Ukrainian producers are eligible to export to the EU as they are unable to meet sanitary requirements. This trade opportunity will not be utilized in a year or two as overcoming of sanitary barriers required for entry into the EU are too costly to be considered.

Pork exports to Russia should remain close to nothing due to pressure exerted by the Russian authorities. Beef exports remain uninterrupted for now, though the situation is fragile.

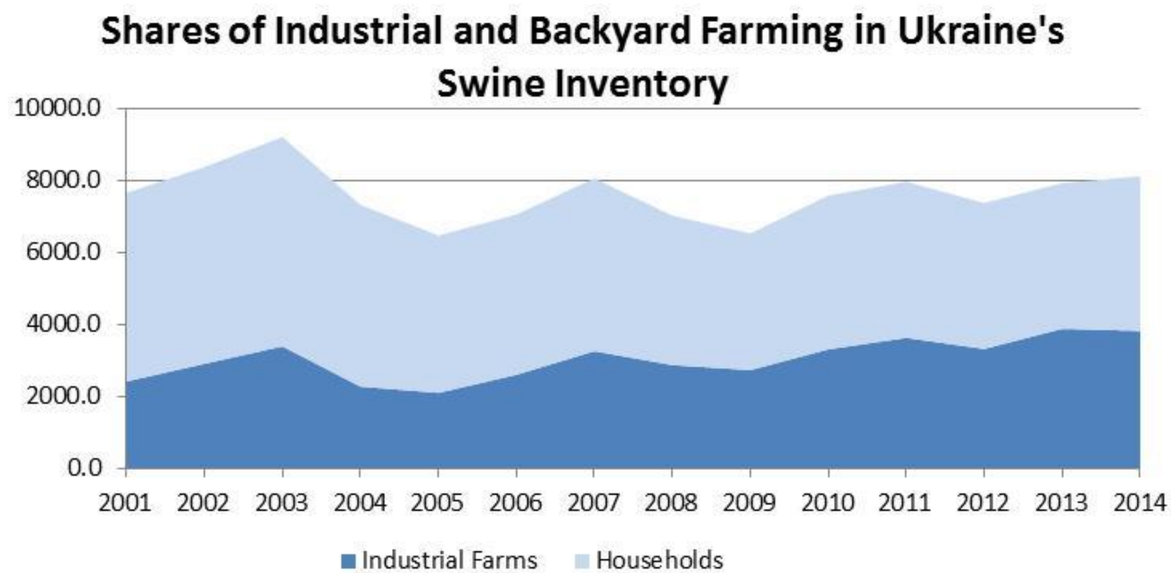
Section I. Narrative

Production

Swine/Pork

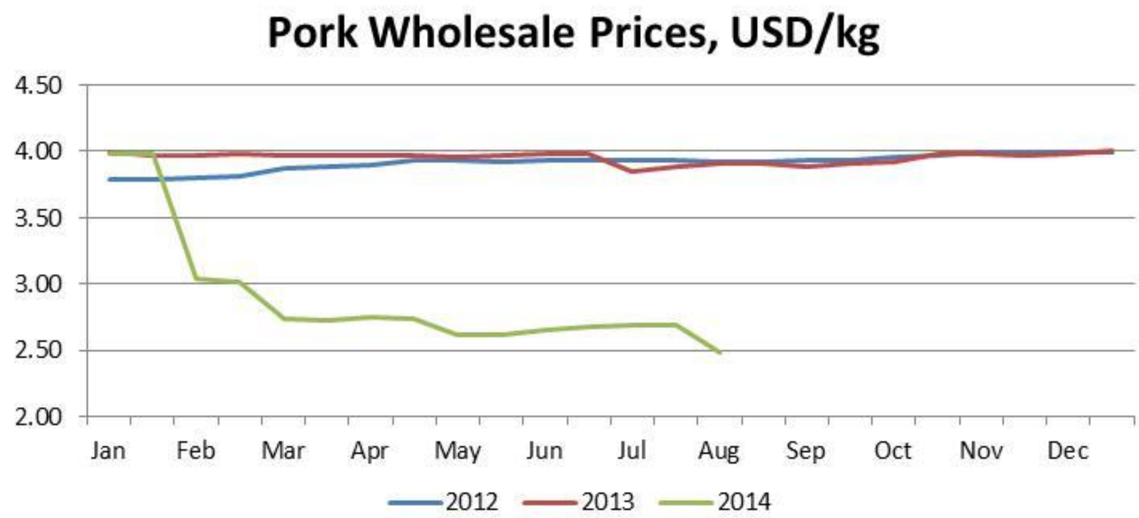
PSD numbers for 2014 were revised to reflect changes to official statistics. Ukraine's industrial pork production has made progress in terms of development and efficiency. For example, the number of piglets per sow increased in 2013, which led to increases in slaughter numbers and ending inventories as well as revisions to pork production figures. Commercial production has proven its resilience during the ongoing economic and political turmoil. In January 2014, commercial-scale production exceeded 50 percent of the market for the first time in last 15 years. However, in 2014-2015, the local industry is expected to contract and this impact will be greater in the private household production sector.

Investments into pork production in 2012-13 provided the local industry with some momentum that cushioned the impact from a gradual slowdown in production observed in late 2013 – early 2014. As of early August, swine numbers in industrial farms reached 3.82 million head (a 101.5-percent decrease in comparison to 2013), while household production has shown decreases to 4.30 million head (a 98.9-percent decline in contrast to the 2013 figure).



Source: State Statistics Service of Ukraine

Ukrainian currency, the Hryvna (UAH), lost over 60 percent of its value during February-August of 2014. This weakening led to a significant real term price declension for domestic pork producers. The consumers will not able to maintain the same consumption levels as they did in the past given the price of red meat continues to increase.

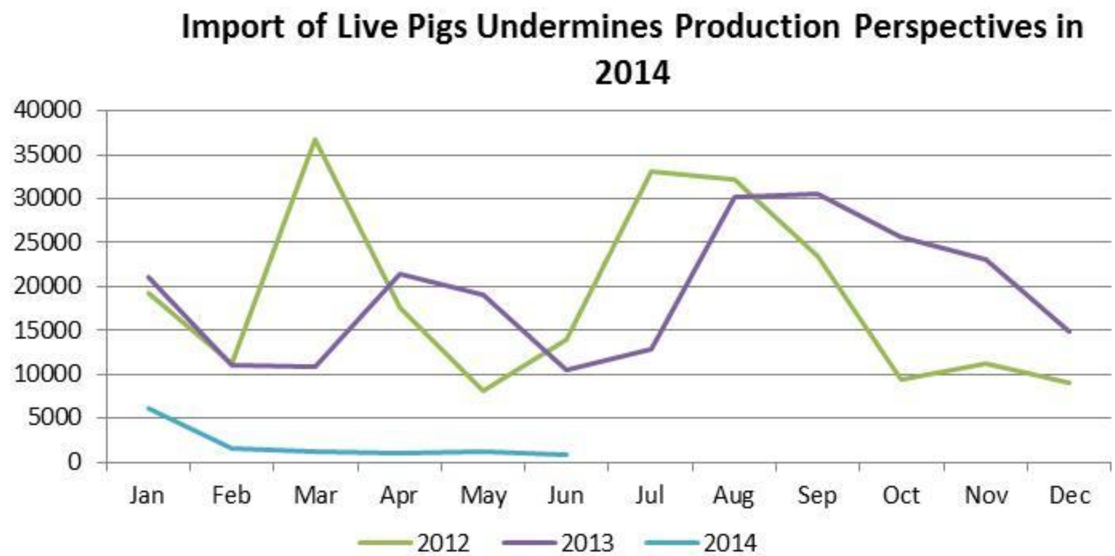


Source: Association of Pig Breeders of Ukraine

On the one side of the equation, although substantial currency devaluation gave producers a temporary advantage over their foreign competitors, in fact the economic crisis brought about more challenges than benefits to local meat producers. The development of profitable production facilities heavily relied on external financial sources, of which these were either unavailable or too expensive. Many companies had problems maintaining their day-to-day operations due to delays with money transfers in a troubled banking system.

Many inputs used by producers of beef and pork are of foreign origin; therefore, these companies will find their hryvna-denominated input costs appreciating despite the drop in currency. Producers import a significant share of veterinary drugs, feed additives, equipment, feeders, ventilation equipment and farm machinery. The Ukrainian industry can supply only a limited number of basic equipment (such as cages), so a quick switch to locally produced machinery is unlikely, while the majority of input costs (such as feed, electricity, labor force and other related items) will remain priced in hryvnas.

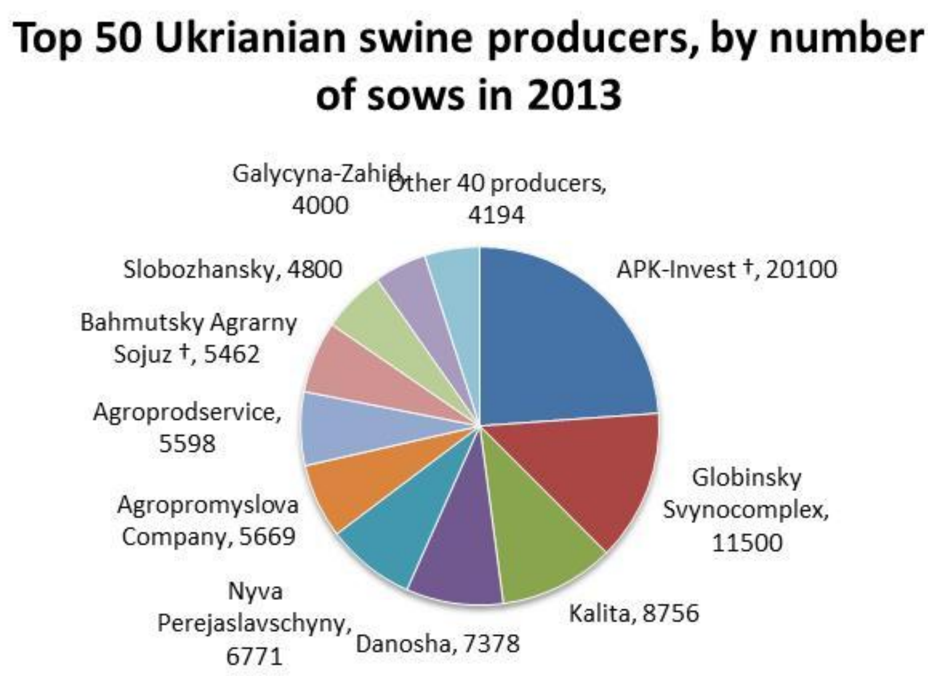
Another group that will experience contraction is small specialized fattening (finishing) farms. Many of which imported live pigs from neighboring EU countries for finishing purposes in Ukraine. These producers operate on relatively sharp margins and remain heavily vulnerable to currency fluctuations. In 2014 most of them contracted live pig imports for finishing and slaughter. These exports were mostly from Germany and (in a smaller number) Poland. Denmark and Great Britain supply most of these breeding pigs to Ukraine.



Source: Global Trade Atlas

Supplies of pigs for finishing have dried up almost completely in early 2014. Limited supplies of breeding pigs are expected to continue despite currency exchange rate swings. Many of the large Ukrainian integrated farms rely on genetic supplies to maintain their breeding herds and are determined to maintain importing genetic stock even if offered at a premium. Smaller enterprises, on the other hand, which specialize in fattening of pigs, will mostly switch to domestic piglet supplies, which are of significantly lower quality and pose an increased risk for veterinary problems.

The vast majority of large pork producers are vertically integrated enterprises involved in the production of their own grandfather stocks, feed, slaughter and product manufacturing. Some of them even developed their own distribution networks and supply major retail chains.



Source: Association of Pig Breeders of Ukraine
† - ATO impacted facilities

The list of top 50 Ukrainian producers did not change much since 2013. APK-Invest remained the largest company in the industry. By 2014, it expanded from 339,000 head of swine in 2012 to 450,000. The company produces crops on 41,000 hectares and operates elevator facilities with a combined capacity of 78,000 MT. According to the company, it occupies 18 percent of the pork market share. All of the company's facilities are situated in the eastern oblast of Donetsk where Anti-Terror Operations (ATO) is being conducted by Ukraine's authorities. The company publically acknowledged losses associated with the on-going conflict, as close to 70 percent of company's retail network was not operational since the conflict began (February 2014 to present). These losses occurred due to the inability to delivery product and damage to their trade pavilion centers. (Note: The company carries out a significant portion of sales to distributors through trade pavilion centers.) The company was not able to specifically quantify the mounting losses it has incurred since the conflict started.

Bahmutsky Agrarian Union is another large company (8th largest producer) situated in Donetsk oblast. The company claims it controls 5.5 percent of Ukrainian pork market. However, the company was directly impacted by the ATO and halted meatpacking operations in its Horlivka city facility on August 22, 2014. Most breeding farms continue operations and the sale of young pigs. Bahmutsky Agrarian Union will not be able to maintain its planned production levels as this production contraction is difficult to calculate presently.

The spread of African Swine Fever (ASF) in Ukraine and in the neighboring Poland, Belarus, and Russia had a major impact on trade. A new outbreak of ASF was reported in a household in eastern Ukraine on January 30, 2014. Another case was reported in the wild herd in February in the same region. There are unconfirmed cases of other private households in northern Ukraine which reported similar outbreaks on September 1, 2014. In 2013/14 there were no reported outbreaks in commercial pork production facilities in Ukraine.

All facts listed above contributed to a reverse trend in pork production. Contrary to expectations listed in previous reports, 2014 production is expected to decline. The 2015 production forecast is difficult to undertake due to substantial external factors influencing the industry. The current political and economic environment provides no hope for improvement. Pork production is 2015 is expected to decrease as well.

Cattle/Beef

Contrary to earlier expectations, animal numbers in 2104 and 2015 are also expected to decrease. Beef production in 2014 will show short-term growth due to an increase in animal slaughter rates. However in 2015, both animal numbers and production for beef are expected to contract in response to the economic crisis, weak consumer demand and dairy export problems. Similarly with pork production, beef producers experienced the same difficulties associated with currency devaluation and a decline in demand. However, the industry's most pressing issue in 2014 was Russia's dairy products import ban introduced on August 1, 2014.

As outlined in the GAIN Report Ukraine Stops Dairy Exports to Russia_Kiev_Ukraine the total market volume loss is estimated at $353 million. For many years Russia was the major export market for Ukrainian cheese products and its disappearance will have a profound impact on a number of dairy producers in the country. A significant share of beef production in Ukraine remains a derivative of the dairy industry and is highly dependent on the fresh milk price and the availability of export markets. The number of animals and slaughter is also directly influenced by the industry's rate of efficiency. As efficiency of the dairy sector grows, fewer animals are needed to produce milk and less beef is produced by slaughterhouses. Commercial-scale milk production efficiency rates were growing over last decade with a notable acceleration in the 2011-13 periods. The number of beef cattle in the country is insignificant and declining annually, as beef production is not viewed as a separate business, but rather an offset of dairy production.

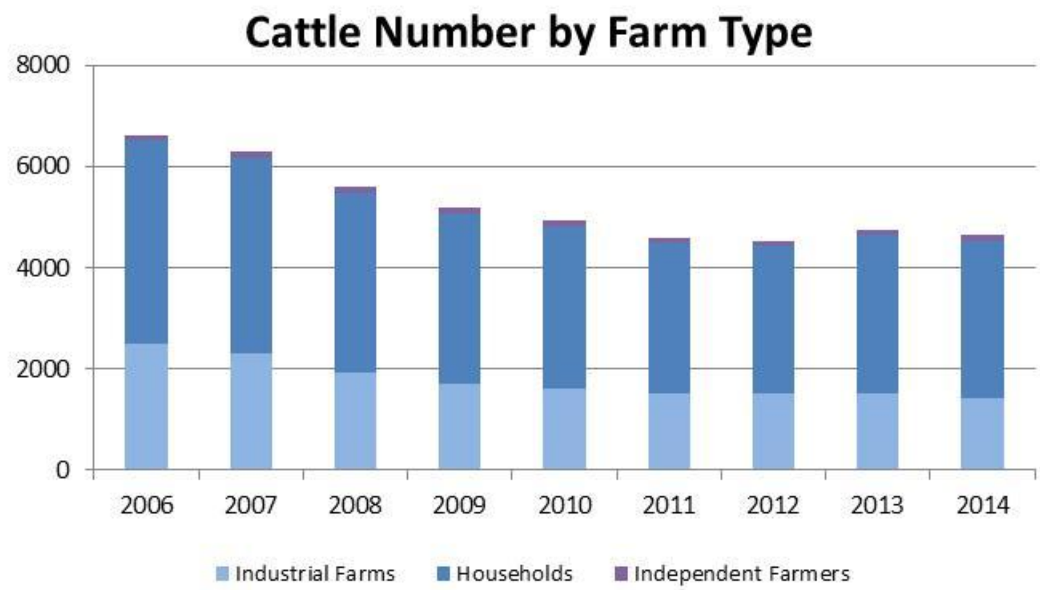
Trade in Major Dairy Products with Russian Federation in 2013

Products Group	**Trade Volume, MT**	**Trade Value, USD**
Cheese	49,861	314,153
Butter	2,330	18,805
Non fat Dried Milk	5,439	24,788
Total	**n/a**	**$353,141**

Source: World Trade Atlas

The 2013 production numbers were updated to be in accordance with official statistics. The State Statistics Service conducted minor animal headcount revisions and production figure corrections. They were made in the appropriate PSDs as well.

Backyard production's share in terms of beef supply has become more prominent, especially since 68 percent of all animals in Ukraine are held in households. The share of young male animals fed for beef is even higher. Households usually use low cost production techniques such as grazing young animals and selling them for slaughter when these reach 450 kilograms (live weight).

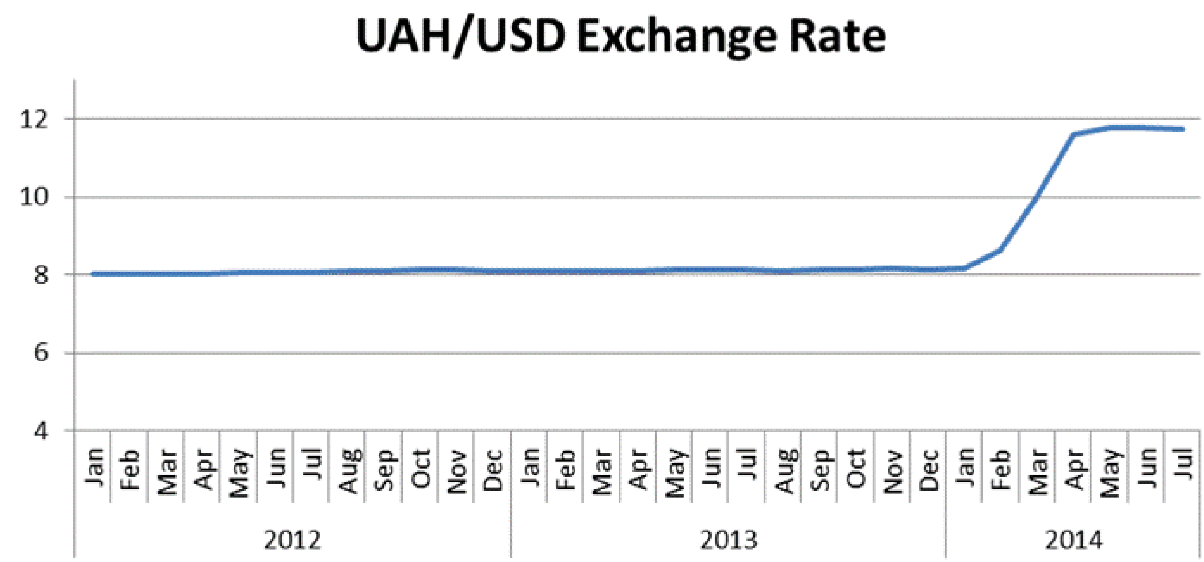


Source: State Statistics Service of Ukraine

In reaction to losses incurred in export markets, local dairy farmers will react by decreasing the animal headcount. Traditionally the largest drop is observed among unspecialized farms with inefficient dairy enterprises. As of the middle of July (post-ban August statistics are not yet available) farmers already reacted to the economic crisis and most will drop their animal numbers. Industrial farms maintained only 91.8 percent of bovine animals, while households – 98.9 percent. Though inefficient, backyard production is viewed by rural households as an important safety net that can provide families monetized income during difficult economic times.

Consumption

The consumption trend changed in 2014 for both pork and beef. Due to the crisis situation in the country, red meat consumption will decline, reflecting a descent in real income in 2014. The situation is expected to repeat itself in 2015. This decline as of August 2013 exceeds 60 percent due to the currency devaluation.



Source: National Bank of Ukraine

A significant portion of demand will be lost due to a massive substitution of red to poultry meat. Ukraine remains a lower-middle income country, thus demand for affordable poultry meat will strengthen. Consumption of red meat remains restrained despite historical references to beef and pork consumption over poultry.

Trade

Trade in red meat in 2014/15 is expected to be influenced by currency devaluation and trade restrictions imposed by Ukraine's previously largest trading partner – the Russian Federation. Imports are expected to decrease and remain close to all-time low figures. Pork exports to Russia are expected to end, while exports to other destinations will continue to be driven by a weak domestic currency.

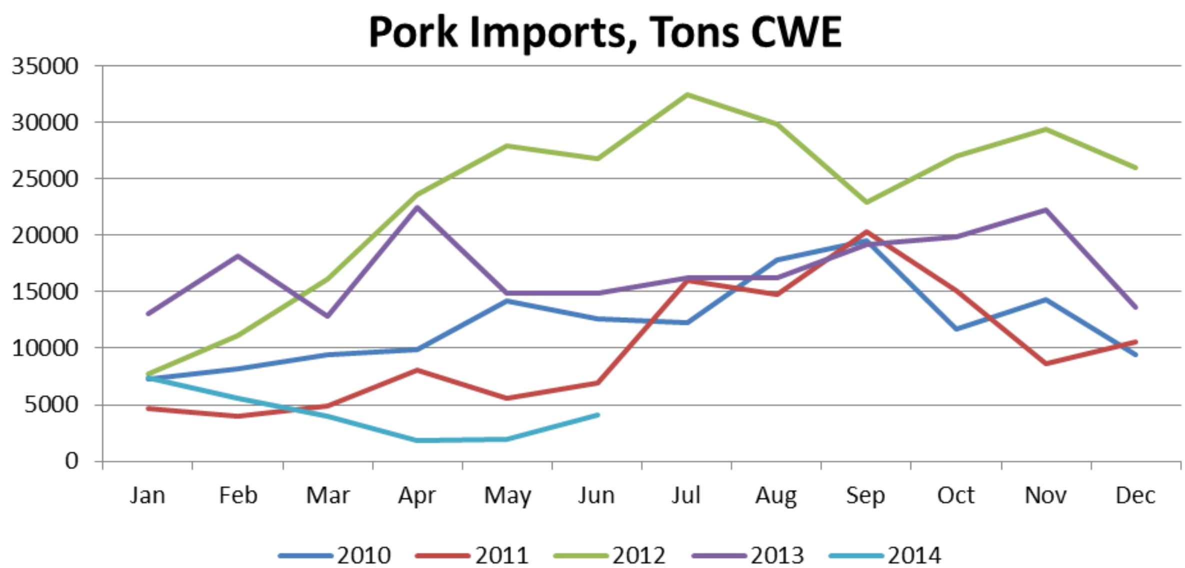
The Deep and Comprehensive Free Trade Agreement between Ukraine and the EU is not yet fully implemented. If implemented, it will provide a better competitive position to EU exporters than their U.S. competitors. The EU will be able to increase supplies under the negotiated TRQ system, although Ukrainian suppliers are unlikely to benefit in the short run, due to veterinary and sanitary restrictions.

Import

Imports of both pork and beef are expected to collapse in 2014 and remain low in 2015. Significant import costs increased due to currency devaluation. Devaluation also translates into higher import duties to exporters. However, its role should diminish over time as domestic price increases are driven by the growth in input costs. However, this increase is likely to take some time to resolve and trade will not resume by 2015.

In private conversations with importers, they stated that the devalued currency decreased their trade activity by 2/3. They also incurred significant losses in early 2014. Many of them preferred to end trading completely until Ukraine can overcome the present economic turmoil. Others blamed continued unpredictable currency fluctuations for the drop in trade. In their opinion predicted and controlled devaluations can be managed, however, the recent currency swings between 14.9 UAH/1 USD and 12.5 UAH/1 USD make routine business planning practically impossible.

Import procedures were simplified in early 2014. The State Veterinary and Phytosanitary Service canceled compulsory veterinary import permits which constituted a significant problem in the past. Customs valuations of imported products also remain an obstacle to expanding trade.



Source: Global Trade Atlas

For a period of time Ukraine maintained limited import restrictions for live pigs, pork and animal feed imported from select regions of Russia where ASF cases were detected. A full-scale import ban was introduced in July 2014 when additional Russian regions reported new outbreaks.

In February 2104, Ukraine also restricted pork imports from Poland due to ASF cases. After exhaustive negotiations, trade resumed for a short period of time and then stopped again in late July 2014. Imports of all pork products are now banned with the exception of those which tested ASF-free in third party laboratories. U.S. exporters were able to benefit from the situation and maintain pork exports in 2014. Previously U.S. producers faced significant competition and were competitive in just few meat categories. Limited imports of the U.S. product are expected to continue for the rest of 2014 and into 2015.

Imports of beef will remain insignificant, with growing demand for higher quality beef cuts. Recent trends in the hotel, restaurant and institutional food (HRI) sector favor high quality U.S. beef. Previously found only in upper-scale establishments, U.S. prime steak cuts are slowly gaining momentum and popularity in middle-class restaurants in the four large cities. Imports of high-value beef in 2014/15 will remain limited due to the economic situation, but will remain profitable. Long-term perspectives for U.S. beef import look favorable.

For a long period of time, imports of red meat were politically sensitive and attracted the attention of the Ukrainian Government (GOU) which tried to limit them using various methods. The GOU's attention to this issue is expected to diminish as collateral damage from the currency devaluation inevitably drives imports to all time low levels.

Export

Ukraine is a net-importer of red meat. However rather significant exports were recorded in recent years. Trade policies of the neighboring Russian Federation allowed for exports despite multiple restrictions. Other trade partners experienced even bigger problems and were restrained by trade import quotas.

Ukrainian pork importers lost their largest traditional market in Russia in February 2014. This time the ban (the cancelation of the import certification) was not caused by a trade dispute or fear of re-exports. In February, Russia expressed concern over the spread of ASF in eastern Ukraine and closed their market completely to Ukraine. Moldova will remain the major export destination for Ukrainian pork in 2014; though the export volume will remain negligible.

Ukraine did not fully implement the Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union despite the largest political crisis in Ukraine's history and a change in government. Some observers blame Russia's strong opposition and demand of trade consultations on implementation issues. Possible trade bans by the Russian Federation imposed on both Ukrainian and EU exports delayed the ratification of the FTA agreement in the Ukrainian Parliament.

However in order to support the economy and to avoid Russia's sanctions, the EU provided Ukrainian producers with six months of unilateral market access on the terms agreed upon in the FTA agreement. (Note: Ukraine did not open its own pork and beef markets to the EU.) The EU producers will not be able to utilize their import TRQ until November 1, 2014, which is when the full scale implementation of the FTA is expected. Given the political situation in the country, it is difficult to speculate as to whether or not EU exporters will be receiving better market access in late 2014 and beyond. Exports to the EU are not expected to resume in the foreseeable future. Despite available import TRQ, Ukrainian producers lack veterinary and sanitary approvals from the EU authorities.

Exports of Ukrainian beef will continue with Russia being the largest market. So far, access to Ukrainian beef remains relatively unrestricted, and beef continues to be one of few Ukrainian agricultural exports to Russia.

Trade estimates for 2013 were revised to converge with official statistics. The trade forecast for the remaining months of 2014, as well as for 2015 remains fragile and subject to trade policy changes.

Section II. Statistical Tables

Ukraine Cattle PSD Table (1,000 Head*)

Animal Numbers, Cattle Ukraine	2013 Market Year Begin: Jan 2013		2014 Market Year Begin: Jan 2014		2015 Market Year Begin: Jan 2015
	USDA Official	New Post	USDA Official	New Post	New Post
Total Cattle Beg. Stks	4 646	4 646	4 694	4 534	4 150
Dairy Cows Beg. Stocks	2 554	2 554	2 545	2 509	2 480
Beef Cows Beg. Stocks	36	36	36	33	29
Production (Calf Crop)	2 590	2 518	2 500	2 550	2 450
Total Imports	3	3	3	3	3
Total Supply	7 239	7 167	7 197	7 087	6 603
Total Exports	11	11	10	15	15
Cow Slaughter	0	0	0	0	0
Calf Slaughter	0	0	0	0	0
Other Slaughter	2 492	2 573	2 500	2 874	2 540
Total Slaughter	2 492	2 573	2 500	2 874	2 540
Loss	42	49	47	48	48
Ending Inventories	4 694	4 534	4 640	4 150	4 000
Total Distribution	7 239	7 167	7 197	7 087	6 603
CY Imp. from U.S.	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0

**These are not USDA official numbers*

Ukraine Beef and Veal PSD Table, 1,000 CWE (1,000 Head)*

Meat, Beef and Veal Ukraine	2013 Market Year Begin: Jan 2013		2014 Market Year Begin: Jan 2014		2015 Market Year Begin: Jan 2015
	USDA Official	New Post	USDA Official	New Post	New Post
Slaughter (Reference)	2 492	2 573	2 500	2 874	2 540
Beginning Stocks	15	15	15	15	15
Production	430	428	430	460	430
Total Imports	5	5	5	2	2
Total Supply	450	448	450	477	447
Total Exports	34	34	20	24	24
Human Dom. Consumption	401	399	415	438	408
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	401	399	415	438	408
Ending Stocks	15	15	15	15	15
Total Distribution	450	448	450	477	447
CY Imp. from U.S.	0		0	0	0
CY. Exp. to U.S.	0		0	0	0

**These are not USDA official numbers*

Ukraine Swine PSD Table (1,000 Head*)

Animal Numbers, Swine Ukraine	2013 Market Year Begin: Jan 2013		2014 Market Year Begin: Jan 2014		2015 Market Year Begin: Jan 2015
	USDA Official	New Post	USDA Official	USDA Official	New Post
Total Beginning Stocks	7 577	7 577	7 890	7 922	7 650
Sow Beginning Stocks	488	488	520	502	490
Production (Pig Crop)	9 163	9 465	9 580	9 700	9 450
Total Imports	231	231	200	20	20
Total Supply	16 971	17 273	17 670	17 642	17 120
Total Exports	0	0	0	0	0
Sow Slaughter	0	0	0	0	0
Other Slaughter	8 450	8 672	8 830	9 342	8 870
Total Slaughter	8 450	8 672	8 830	9 342	8 870
Loss	631	679	640	650	650
Ending Inventories	7 890	7 922	8 200	7 650	7 600
Total Distribution	16 971	17 273	17 670	17 642	17 120
CY Imp. from U.S.	0	0	0	0	0
CY. Exp. to U.S.	7 577	7 577	7 890	7 922	7 650

These are not USDA official numbers

Ukraine Pork PSD Table, 1,000 CWE (1,000 Head)*

Meat, Swine Ukraine	2013 Market Year Begin: Jan 2013		2014 Market Year Begin: Jan 2014		2015 Market Year Begin: Jan 2015
	USDA Official	New Post	USDA Official	USDA Official	New Post
Slaughter (Reference)	8 450	8 672	8 830	9 342	8 870
Beginning Stocks	22	22	22	22	22
Production	795	748	830	810	770
Total Imports	204	204	200	35	45
Total Supply	1 021	974	1 052	867	837
Total Exports	7	7	5	6	7
Human Dom. Consumption	992	967	1 025	839	808
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	992	945	1 025	839	808
Ending Stocks	22	22	22	22	22
Total Distribution	1 021	974	1 052	867	837
CY Imp. from U.S.	0	0	0	0	0

CY. Exp. to U.S.	0	0	0	0	0

**These are not USDA official numbers*