

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Report Highlights:

Pork production in 2012 is expected to be close to 2011 numbers, boosted by high domestic prices. For the same reason pork imports are expected to grow to historically high levels. Production of beef will stabilize after two decades of decline. Ukraine will continue to import pork, and will export limited amounts of red meat mostly to Russia and Kazakhstan. Registration of a single case of African Swine Fever will have limited impact on production and trade in 2012, although possible future developments may have far reaching consequences.

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

Executive Summary

After a pork production slowdown in 2011, production in 2012 is expected to stabilize at 2011 levels driven by production increases in the industrial sector. The growth is boosted by the stable high domestic pork price and high price for poultry which is often viewed as a substitute product by Ukrainian consumers and processors. If price remains high, production in 2013 will grow despite feed cost increases. Feed supply in 2013 is expected to remain stable despite rather unfavorable weather conditions. Most Ukrainian pork producers are vertically integrated holdings and have some resistance to sharp price shocks. The trend for increased investments into the pork sector is expected to continue in 2013.

Imports of pork products in 2011/12 grew as forecasted. Import volume exceeded our previously forecasted level due to the same high domestic price factor. Similar to previous years, imported products were used by Ukrainian meat processors. This increase allowed the Brazilian producers to occupy over half of Ukrainian's import market. Imports in 2013 will remain significant, but forecasted to be less than 2012 level even if prices remain high.

Production of beef is expected to stabilize in 2012 with a continued stable production outlook for 2013. Cattle number would remain stable for the first time in last 20 years. Beef production will remain to be a derivative of dairy sector and will depend on dairy export market situation and raw milk price. Milk prices in 2011/12 remained high, which stabilized livestock production.

Export markets for Ukrainian red meat will continue to be limited mostly to Former Soviet Union (FSU) countries: Russia for pork and Russia and Kazakhstan for beef. Export of pork remained largely unaffected by an African Swine Fever (ASF) case registered in south-east Ukraine, but situation may change should additional cases of this highly contagious disease get registered in other regions of the country.

Section I. Narrative

Production

Livestock and swine industries are not expected to suffer from a lack of feed in CY 2012-13. Despite rather unfavorable weather conditions, a good grain crop is expected. Ukraine has also accumulated sufficient ending stocks of major crops that should allow the country to fully satisfy its domestic consumption needs and to have some exportable surplus. For more information please read the most recent [Grain and Feed GAIN report](#). Due to world market demand the domestic price for feeds is expected to grow to higher levels comparable to those in 2008. This growth might bring the red meat production cost up substantially and have negative impact on beef production. Production of beef is predominately backyard and relatively inefficient. The impact of high feed cost on swine production is not expected to be as profound. All big Ukrainian vertically integrated swine producers possess sufficient resources to survive possible cost increases even in unlikely case of meat price drop.

State livestock production support programs are very uneven, their adoption and financing is sporadic and could not be used as a factor in a producer's business decisions. Most of the industrial farming support is based on foregone budget revenue programs (Value Added Tax

exempts and Single Agricultural Tax). Despite past statements about industrial farming support in April of 2012 the Government of Ukraine (GOU) announced a massive household sector support program.

The new support program would target registered young animals (registration sometimes is not the case in the households) that were born in households and not slaughtered. For 3-5 months old cattle the GOU promised UAH 250 (\$ 31.25) per head, for 6-8 months old UAH 500 (\$ 62.50) and for 9-11 months old – UAH 750 (\$93.75). In the future the state budget support program will be targeting longevity of young animals. The sum would be equal to UAH 250 (\$ 31.25) per head every three months until the animal reaches 11 months of age. Some observers criticized the program for concentration on number of animals, not their productivity.

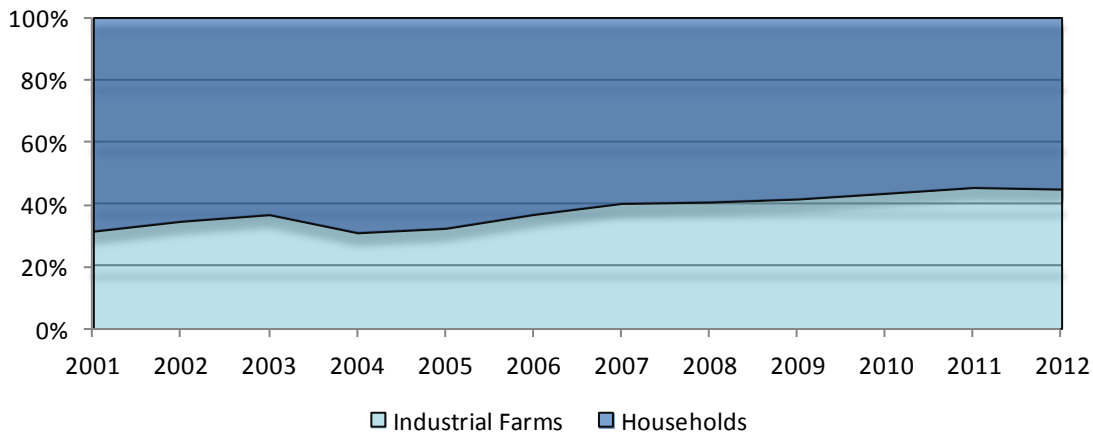
Poultry will remain to be the main substitute protein for red meats. Its share grew from 12 percent of the diet in early 2000's to 47 percent in 2012. Although stable, production of poultry is going to increase in 2013-15. Lack of new export markets for poultry may lead to depressed red meat price and production.

Cattle, cow and swine inventories for 2011 were changed in the PSD table to reflect changes in the official Ukrainian State Statistics Service year-end statistics. Production (pig crop and calf crop) levels have been changed to match the new GOU revisions. As required, trade numbers for the PSD were converted into CWE.

Swine

Swine/pork production in Ukraine is concentrated in both backyard and industrial farms. Around 55 percent of swine inventories are concentrated in household sector with remaining 45 percent in the industrial farms. Industrial production share slowly grew over the last eight years, but accounts for less than half of the market. Household production is strong due to its subsistent nature and unavailability of other income sources in the rural areas. The trend for bigger industrial farming will accelerate in the future due to recent massive investments into swine industry.

Shares of Industrial and Backyard Farming in Ukraine's Swine Inventory

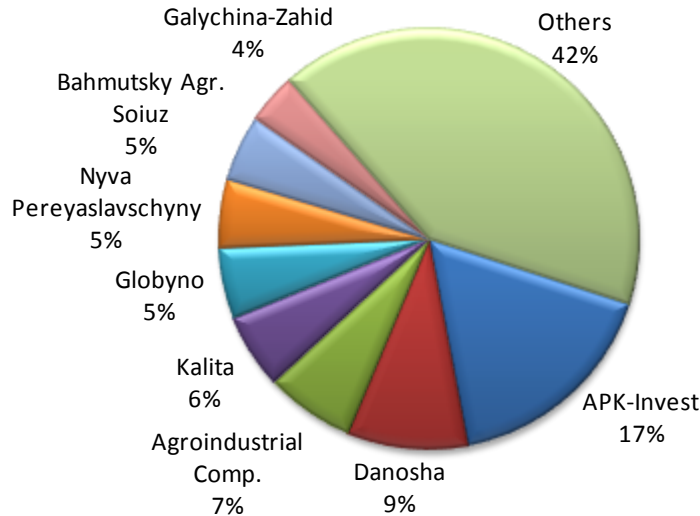


Source: State Statistics Service of Ukraine.

The number of mid-sized farms with 500-3,000 pigs will be decreasing, while big cost-effective companies with 20,000 pigs and more will be dominating in the industry. Major industry players

conduct significant investments into vertical integration in an attempt to moderate risks from growing feed price, imperfectly functioning input markets and governmental regulatory policies. Most of the big farms (a.k.a. agricultural holdings) will be vertically integrated facilities that own/rent significant plots of land, own machinery, produce own crops and mix feeds. Big farms also invest into pork processing, logistics and their own retail outlets. One of the big holdings went even further investing into poultry operations and entered the top five poultry producers rating.

Major Industrial Pig Producers in 2012, by Sow Number

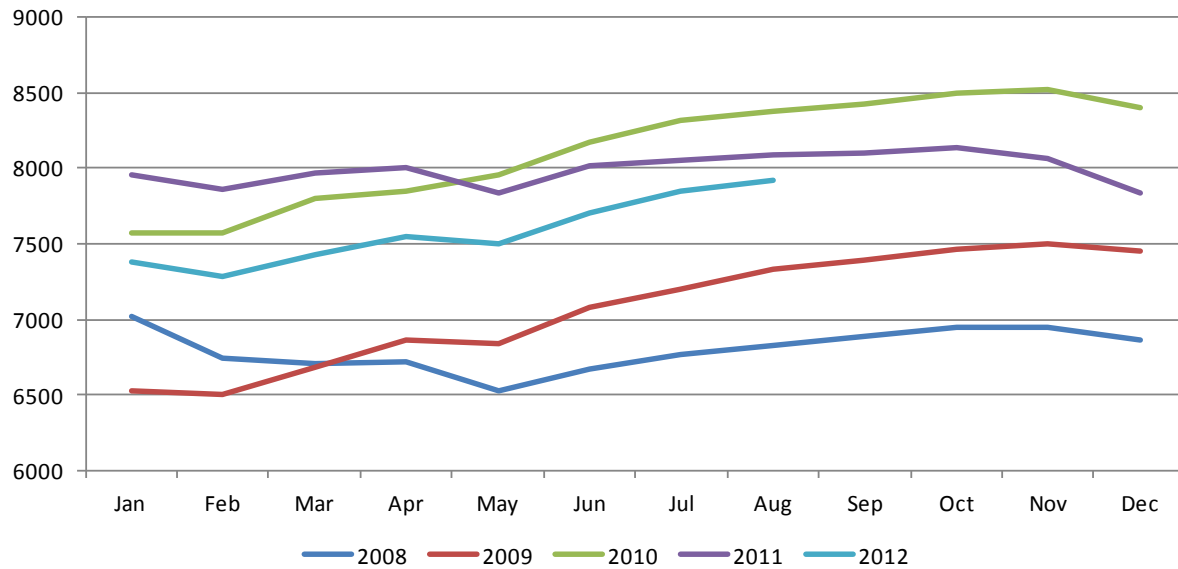


Source: Association of Pig Breeders of Ukraine

This massive vertical integration makes agricultural holding stable and resistant to price shocks in very unstable market environment. At the same time it does not allow the management to concentrate on pork enterprise as a core business and thus slows down industry development. Expansion of arable land areas, investments into agricultural machinery, new feed mills and retail deter financial resources from swine production.

The number of pigs in Ukraine follows a clear four year cycle. This includes production in both backyard and industrial farms. Some production decrease registered in 2011 followed the pattern. At the same time in the first half of 2012, the number of pigs started to rise and likely will exceed the 2011 number by year end.

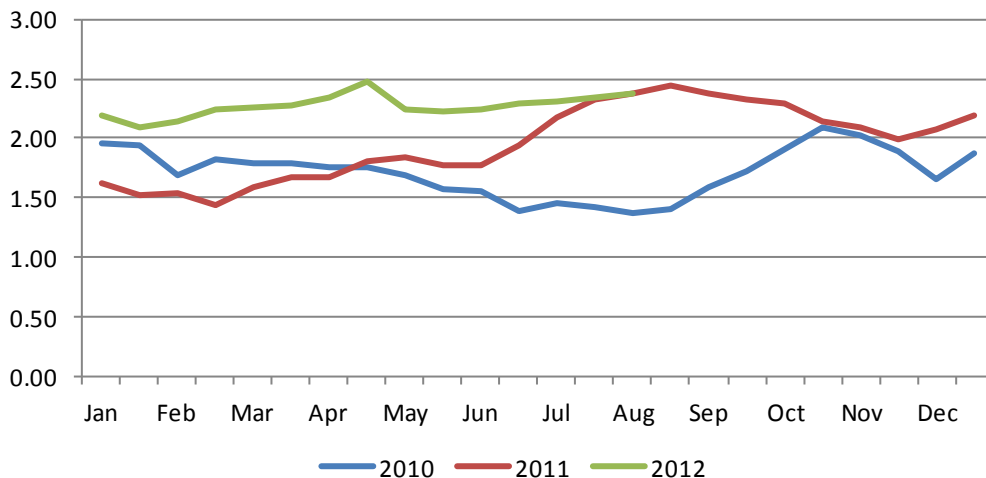
Number of Pigs on Farms of All Types, by Month



Source: State Statistics Service of Ukraine

This production increase took place despite record-high pork imports. Industry sources claim that production will be increasing as long as pork prices remain high. Separately they noted importance of high poultry price for stability of pork price. For poultry market evaluation please refer to resent [GAIN Poultry Report](#). Significant imports of live pigs must also be attributed to increased domestic production in 2012. Ukraine imports young animals (50 kg or less: HS 010391) from EU countries for finishing. Import of slaughter pigs is insignificant, under five percent of all live animals imported.

Domestic Pork Farmgate Price* (USD/kg, LWE)

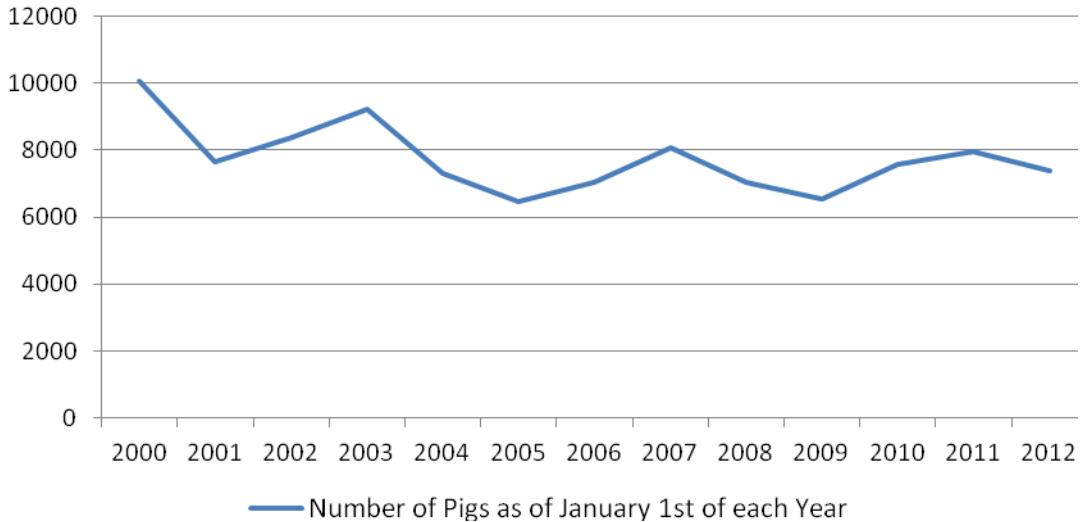


Source: Association of Pig Breeders of Ukraine, FAS Kiev calculations
 * Second Category Live Pigs

Our 2013 supply and demand forecast envisages further slight production increase assuming current high pork price domestically and all over the world due to feed price growth. Similar to

2012, pork imports are not expected to undermine production significantly.

Number of Pigs as of January 1st of each Year

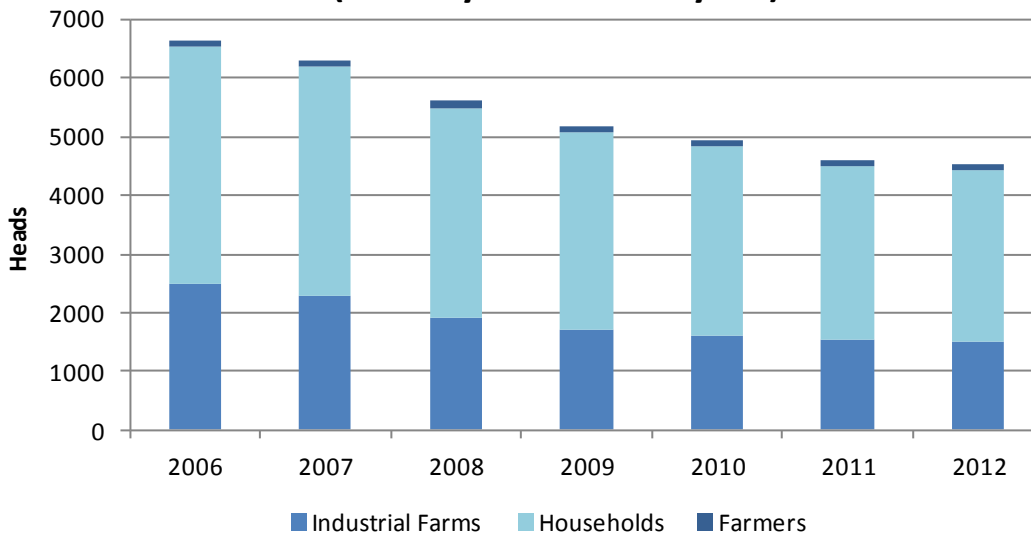


Source: State Statistics Service of Ukraine

Cattle

Cattle/beef production in Ukraine remains a derivative of the dairy industry and is highly dependent on the milk price and the availability of export markets for Ukrainians dairy products. Ukraine's production of beef is expected to stabilize in 2013, although little sign of recovery is expected in 2013 despite some investments into dairy sector.

Cattle Number (January 1st of each year)

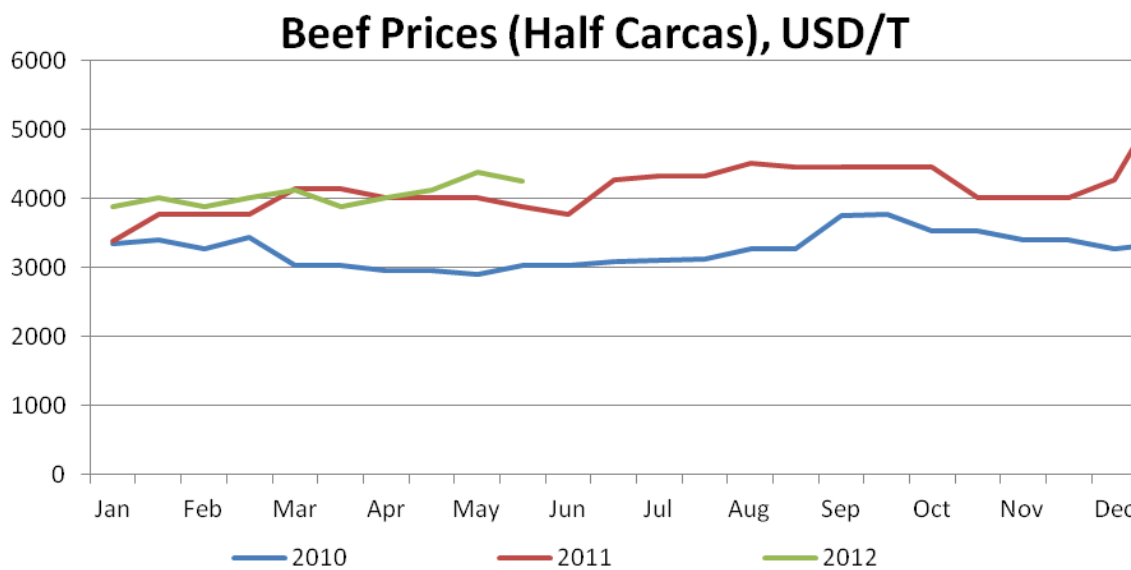


Source: State Statistics Service of Ukraine

Upon introduction of export restrictions on Ukrainian cheese by Russian Federation, many small private milk producers reviewed their plans and slaughtered animals. The trade conflict over Ukrainian cheese was partially resolved, but many producers were delisted and could not continue exporting. Exports of cheese from approved facilities are complicated by the new rules. According to some experts total cheese export decrease may reach 30 percent by the end of 2012.

In an attempt to fix the situation, the GOU tried to introduce a minimum milk price in the fall of 2012. This soviet type administrative restriction had proven to be counterproductive during multiple previous GOU attempts to control retail process or to control grain prices.

Similar to pork, the cattle price remained high providing additional support to beef production in the country. Direct access to Russian market facilitated to high price spillover into Ukraine. No significant trade restrictions were introduced by Russian Federation on beef products.



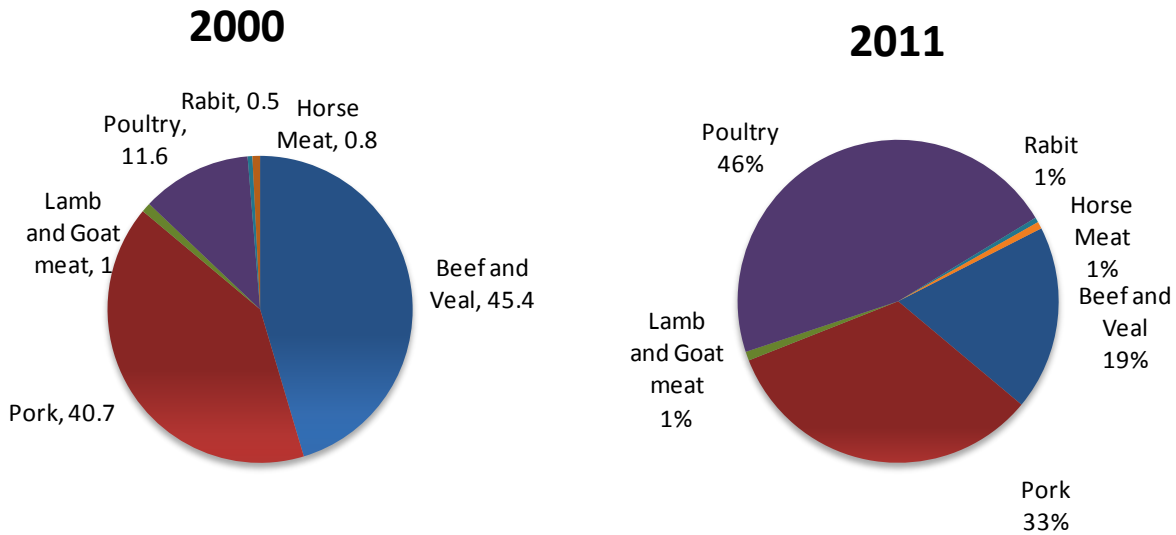
Source: Ukrainians Agrarian Business Club (UCAB) Price Monitoring, FAS Kiev Calculations

Consumption

Ukraine's economic growth was slowing down through the first half of 2012. Many experts and international financial organizations decreased their GDP forecasts for 2012 from 4-5 percent to very modest for the economy in transition, 2-3 percent. Even this insignificant growth is attributed to the first half of 2012 as many analysts predict one percent or zero growth rate for last two quarters of 2012. Forecasts for 2013 are dim. Income per capita continued to grow in early 2012 and will likely continue to do so, due to heavy social spending programs implemented by the GOU in view of parliamentary election in late October 2012. This would probably support red meat consumption level until the end of 2012. In 2013 the demand is expected to stabilize, or grow insignificantly.

Consumption of red meat in Ukraine decreased significantly since the early 2000's. Falling disposable incomes in the 90's and 2000's change the consumption pattern, increasing the share of cheaper proteins. Demand from meat processors also decreased. In late 1990's processors made significant changes to the traditional smoked sausages and bologna recipes to replace expensive red meat cuts by cheaper imported poultry. As the Ukrainian poultry industry recovered the focus changed from the imported poultry to domestic one. On "meat for further processing" market

segment many Ukrainian red meat producers compete with poultry producers.



Trade

In 2012 Ukraine made significant efforts in order to keep the export market for animal products open. Most activities concentrated on traditional FSU markets. On July 30, 2012 Ukraine ratified the Free Trade Agreement (FTA) with seven countries belonging to the Commonwealth of Independent States: Russian Federation, Kazakhstan, Belarus, Kirgizstan, Moldova, Tadzhikistan and Armenia. The Agreement was signed by official representatives of eight Commonwealth of Independent States (CIS) countries on October 18, 2011. Among other goals, this FTA is considered a tool that would help to keep traditional Russian and Kazakhstan markets opened for Ukrainian red meat and dairy products.

In 2012/13, Ukraine will remain an exporter and importer of the red meat products at the same time. Imports will concentrate on cheaper lower quality cuts for further processing, while exports will be going to traditional FSU markets in a form of carcasses and halves that are preferred by veterinary-sanitary authorities of the importers.

Import procedures will remain complicated, and obtaining veterinary permits will continue to be difficult for a potential importer. Customs valuation of imported products remains an obstacle for further trade growth.

Import

In 2012, pork imports are expected to significantly exceed the forecasted level. Imports of beef will grow too, but will remain insignificant. As noted above, the two main reasons for the increase in imports were high domestic prices and the will to reopen the market for some importers. Imports in the remaining period of 2012 are expected to continue, but it is unlikely to reach volumes observed in 2004-2009.

Imports will remain to be politically sensitive and highly regulated by the GOU. They will continue to be dependent on state policies and disposable income of population.

Export

Custom Union (CU) countries (Russian Federation and Kazakhstan) will remain major destinations for Ukrainian beef and pork. Export markets are usually preferred by Ukrainian slaughterhouses as export price is often significantly higher than the price they can receive for their product domestically. Geographical proximity and trade restrictions imposed by CU countries on other red meat exporting countries make Ukrainian product even more competitive. At the same time Russian Federation (and now CU) periodically limits imports through veterinary-sanitary measures or through the technical barriers (application of state standards). Many producers fear spillover of existing Russia-based trade restrictions to all CU member states.

Ukrainian agricultural industry has a long story of trade restrictions introduced in different time periods by Russian Federation authorities. Despite a formal resolution of the 2012 cheese export ban, trade is expected to be 30 percent short of 2011 levels. The milk price drop observed in middle of February 2012 led to increased animal slaughter and beef production spike. Depressed milk price continued its negative impact on livestock industry throughout 2012, although impact was less significant.

Given similarity of food safety systems and common production practices in two countries, some observers suspect political component in those limitations. Some trade restrictions had wide public coverage in mass media, while some remained almost unnoticed. The negative economic impact on industry under sanctions was bigger in cases when dependence on export market in Russian Federation was significant and no alternative markets were developed. Currently Russian list of approved facilities contains only 5 [beef suppliers](#) and 5 [pork suppliers](#). Establishment of the CU with common borders and unified import veterinary-sanitary regulations would spread possible restriction to all CU members. In these circumstances excessive dependence on CU markets increases the trade restriction risks for the Ukrainian industry. In the middle of July 2012, CU inspectors conducted a joint audit of the Ukrainian Veterinary and Phytosanitary Service. Despite information about multiple deficiencies and upcoming export restrictions leaked to Russian press, the results of the audit are not yet public and trade regime between CU countries and Ukraine remains unchanged.

Ukrainian beef and pork producers are searching for export markets beyond CU countries to diversify export risks. An interest for export of premium cuts is the highest, since the domestic demand is concentrated on the cheapest segment. In this respect the producers have high expectations about the EU market. The biggest industry players are undertaking extensive upgrade programs trying to bring their production facilities in line with EU veterinary and sanitary requirements. Many pork producers expressed their willingness to start exports. Demand from the beef processors is much smaller with only handful producers submitting official request to Ukrainian authorities.

The EU market was expected to be opened after the signing of the Free Trade Agreement (FTA) between the European Union and Ukraine. After three and a half year negotiations the initial agreement between the parties was reached in October 2011. The text was initialed much later in July 2012. Although the agreement is not yet public (publication is expected in September 2012), some mass media reported about 40,000 MT pork TRQ (20,000 parts and another 20,000 in halves and carcasses) and 14,000 MT TRQ for beef. At the same time the FTA became a part of a wider Association Agreement which has a political component in it and subject to ratification by all member states. Due to recent political developments in Ukraine the chance for such ratification in the near future is insignificant, thus the industry may not get a chance to export to the EU in the near future.

Ongoing upgrade of the Ukrainian veterinary-sanitary control system together with multiple deficiencies found by EU inspections suggest technical ability to export in 2-4 years for pork and 4-9 years for beef.

Trade estimates for 2011 were revised to converge with official statistics. The trade forecast for the remaining months of 2012, as well as for 2013 remains subject to trade policy changes and possible new TBT introductions.

Section II. Statistical Tables

Ukraine Cattle PSD Table (1,000 Head*)

Animal Numbers, Cattle Ukraine	2011		2012		2013
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013
	USDA Official	New Post	USDA Official	New Post	New Post
Total Cattle Beg. Stks	4,494	4,494	4,471	4,426	4,450
Dairy Cows Beg. Stocks	2,631	2,631	2,589	2,582	2,560
Beef Cows Beg. Stocks	36	36	35	35	34
Production (Calf Crop)	2,540	2,561	2,480	2,470	2,460
Total Imports	3	3	3	3	3
Total Supply	7,037	7,058	6,954	6,899	6,913
Total Exports	4	4	4	2	3
Cow Slaughter	0	0	0	0	0
Calf Slaughter	0	0	0	0	0
Other Slaughter	2,492	2,591	2,482	2,397	2,390
Total Slaughter	2,492	2,591	2,482	2,397	2,390
Loss	70	37	68	50	50
Ending Inventories	4,471	4,426	4,400	4,450	4,470
Total Distribution	7,037	7,058	6,954	6,899	6,913
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	2011		2012		2013
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013
	USDA Official	New Post	USDA Official	New Post	New Post
Slaughter (Reference)	2,492	2,561	2,482	2,470	2,460
Beginning Stocks	15	15	15	15	15
Production	385	399	385	395	400
Total Imports	5	5	8	10	10
Total Supply	405	419	408	420	425
Total Exports	18	18	10	18	18
Human Dom. Consumption	372	386	383	387	392
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	372	386	383	387	392
Ending Stocks	15	15	15	15	15
Total Distribution	405	419	408	420	425
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 Swine PSD Table (1,000 Head*)

Animal Numbers, Swine Ukraine	2011		2012		2013
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013
	USDA Official	New Post	USDA Official	New Post	New Post
Total Beginning Stocks	7,960	7,960	7,479	7,373	7,400
Sow Beginning Stocks	518	518	530	472	483
Production (Pig Crop)	7,820	8,109	7,980	7,400	7,640
Total Imports	112	112	115	200	230
Total Supply	15,892	16,181	15,574	14,973	15,270
Total Exports	1	1	1	1	1
Sow Slaughter	0	0	0	0	0
Other Slaughter	7,662	8,137	7,238	6,922	7,000
Total Slaughter	7,662	8,137	7,238	6,922	7,000
Loss	750	670	750	650	700
Ending Inventories	7,479	7,373	7,585	7,400	7,569
Total Distribution	15,892	16,181	15,574	14,973	15,270
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 Pork PSD Table, 1,000 CWE (1,000 Head)*

Meat, Swine Ukraine	2011		2012		2013
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013
	USDA Official	New Post	USDA Official	New Post	New Post
Slaughter (Reference)	7,662	8,137	7,238	6,922	7,000
Beginning Stocks	22	22	22	22	22
Production	680	704	640	680	700
Total Imports	119	119	120	180	160
Total Supply	821	845	782	882	882
Total Exports	17	17	15	30	20
Human Dom. Consumption	782	806	745	830	840
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	782	806	745	830	840
Ending Stocks	22	22	22	22	22
Total Distribution	821	845	782	882	882
CY Imp. from U.S.	0	3	0	2	2
CY. Exp. to U.S.	0	0	0	0	0

**These are not USDA official numbers*