

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Ukraine

### Dairy and Products Annual

### Report

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**Report Highlights:**

Production of dairy products is expected to decrease in 2016 due to reductions in fluid milk supply. Significant currency devaluation negatively impacted domestic consumption and imports. Exports of dairy products increased with exception of cheese. Exports of cheese to Russia stopped in 2014 and are not expected to recover in 2016. Processors were not able to develop new markets. Domestic demand shifted toward the cheapest products and is expected to stabilize in 2016.

**Data included in this report is not official USDA Data. Official USDA data is available at <http://www.fas.usda.gov/psd> Data for the Autonomous Republic of Crimea is included into the PSD tables wherever possible.**

### **Executive Summary:**

After some stabilization in 2012-13, milk production is expected to drop to 10,700 thousand MT in 2015, the lowest number since Ukrainian Independence. The decrease is driven by low milk prices, making household producers unprofitable. Industrial milk production will remain stable (100.5 percent production as of September of 2015 as compared to the same period in 2014.), but is only responsible for a little more than 20 percent of total production.

Milk prices are depressed by low domestic demand for processed dairy products, lack of foreign markets for Ukrainian cheese, and low world price for dried milk. It is expected that 2016 will not bring major shocks as the political and economic situation appears to be stabilizing. However, any significant recovery in demand is not expected.

Once significant, the Russian cheese market remains closed for Ukrainian products since August 2014. Unfortunately, no new export markets were discovered for Ukrainian product. Ukrainian cheese quality often needs improvement, and the type and taste of the product limits its distribution mainly to Former Soviet Union (FSU) countries.

Unable to produce and export cheese, many processors had no choice but to switch to butter and NFDM production. Exports of NFDM are expected to grow to 30 thousand MT and butter to 11 thousand MT. However low export margins did not help to increase domestic milk price significantly. Ukraine returned to some traditional old (2004-2007) markets for dried milk, trying to offer the cheapest product to gain a share.

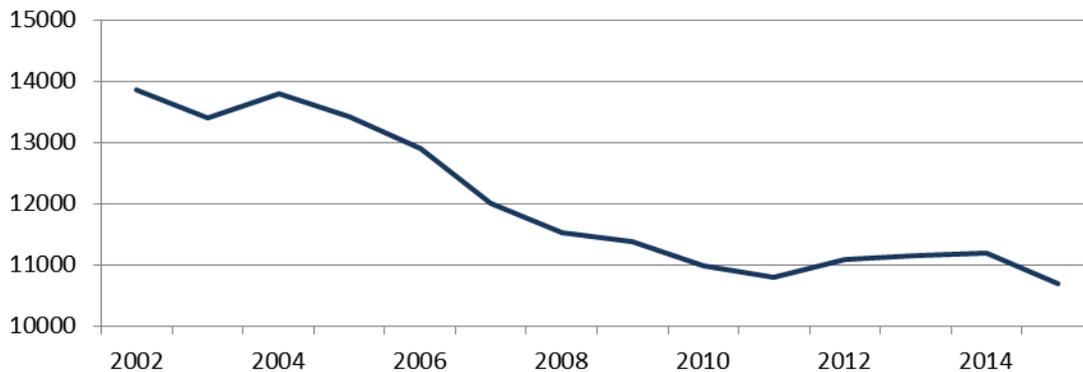
The number of animals will continue to decline in the remaining months of 2015. Exports of beef to Russia in 2015 continued with a significant premium price paid for meat due to the lack of competition with EU and US. Small households were pushed by low milk price and pulled by premium beef price. The situation is likely to change in 2016 as Russia introduces additional trade barriers for all Ukrainian agricultural products, canceling the few remaining trade preferences.

### **Production:**

#### Raw Milk

Milk production in Ukraine is expected to decrease in 2015-16. The decrease is caused by cheese export ban that was officially introduced by Russian Federation in August of 2014, although some trade restrictions started as early as April of 2014.

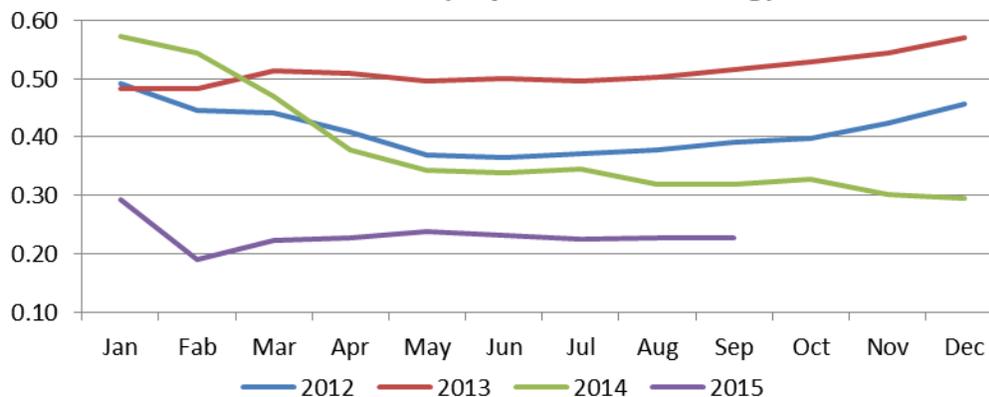
### Fluid Milk Production, 1000 MT



Source: State Statistics Service of Ukraine

The political and economic crisis in Ukraine caused a significant currency devaluation that brought milk prices to an all-time low. An especially strong shock was experienced by producers in February of 2015 after a short-term currency drop of 200 percent that brought real milk prices down to 9 US cents/kg for a couple of days.

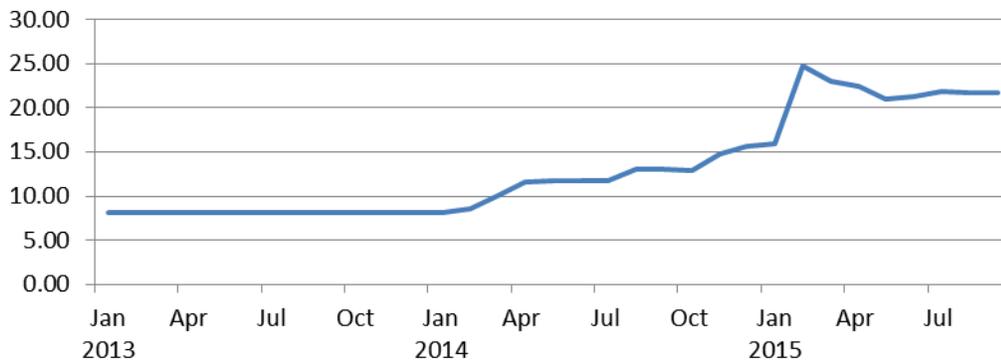
### Raw Milk Price (Top Grade, USD/kg)



Source: Association of Dairy Producers of Ukraine, FAS/Kyiv calculations

The currency devaluation further undermined domestic demand creating a significant barrier to imports. Production costs also dropped and producers were able to export their products despite price drops in worldwide dairy products. The currency devaluation is expected to influence markets in the remaining months of 2015.

### Exchange Rate UAH/USD

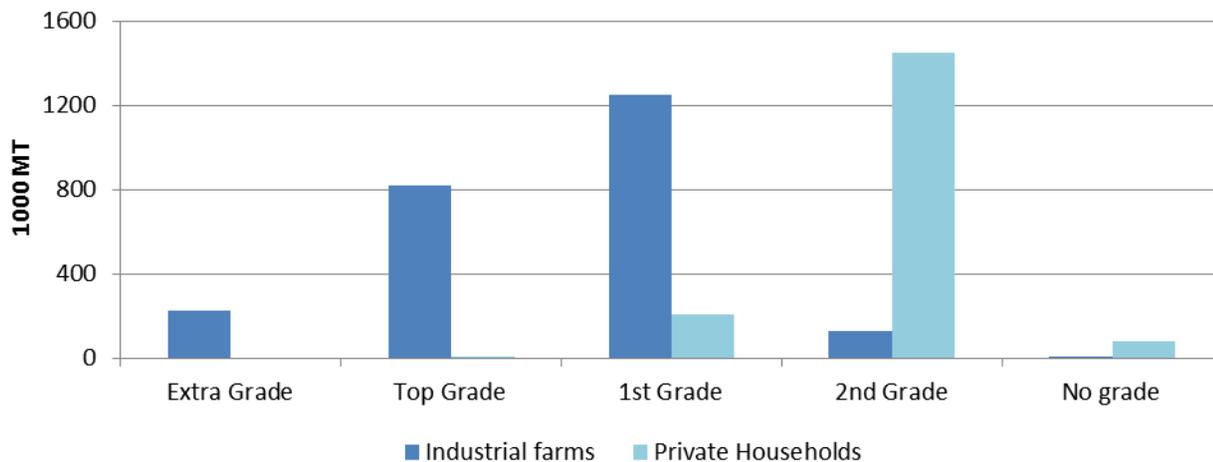


Source: National Bank of Ukraine, FAS/Kyiv calculations

Households are responsible for almost 80 percent of fluid milk production. Much milk is processed into basic, cheap dairy products and sold on open-air markets without any statistical record.

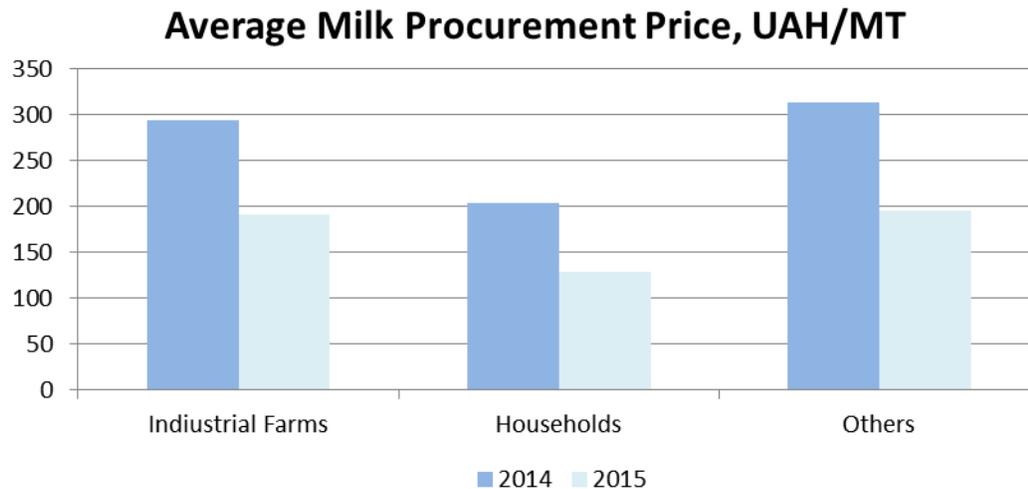
Households were not able to benefit from the devaluation despite the demand shift into the low price – low quality category of dairy products. The quality of milk procured from households remained quite low. However, even industrial farms have a lot of room for improvement as production of “Extra Grade” milk (matching respective EU standard) is still quite low. .

### Households were Unable to Supply High Quality Milk in 2014



Source: State Statistics Service of Ukraine

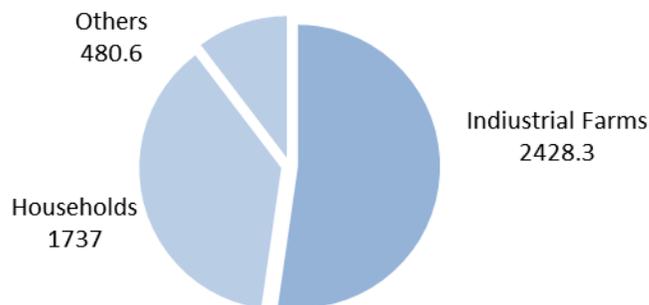
Due to the differing quality standards, the price gap between the price industrial farms received and households received in 2015 widened. This put already inefficient 1-2 cow households into financial difficulty and forced a reduction in the number of head. Milk prices for industrial producers were strong enough maintain current production levels.



Source: State Statistics Service of Ukraine

Ukrainian processors try not to procure low quality milk. The result is that they procure over half of their milk from industrial producers that occupy only 20 percent fluid milk production share.

### Milk Sales for Processing\* in 2014, 1000 MT

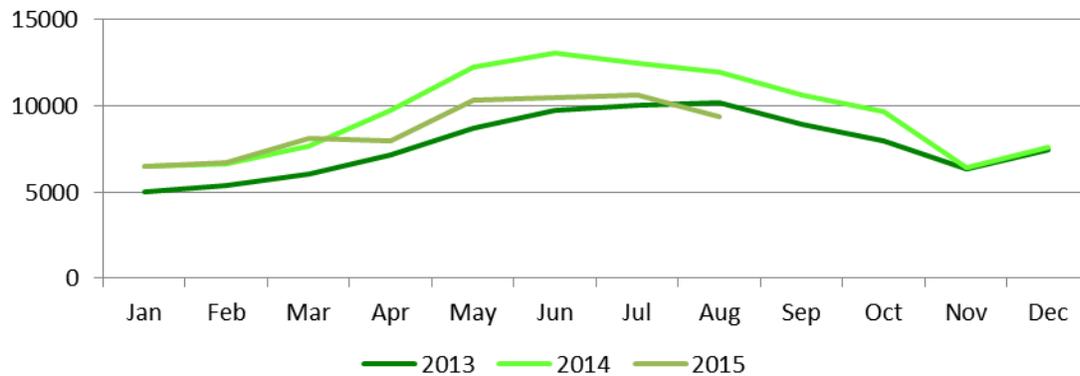


Source: State Statistics Service of Ukraine

#### Butter

Butter production is expected to decrease in 2015 due to a drop in domestic consumption. Increased exports did not help due to low world market prices. Production may moderately increase in the remaining months of 2015 due to an expected price rebound, and that may stimulate exports. Ukrainian domestic market butter prices started to rise reaching 2,300 USD/MT in early autumn.

### Butter Monthly Output, MT



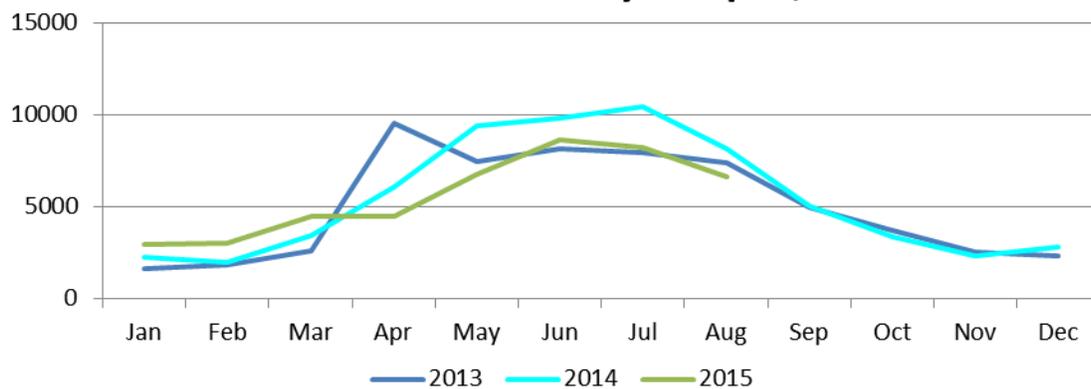
Source: State Statistics Service of Ukraine

Production in 2016 is expected to decline further following the milk production decrease. Exports are expected to drop again as domestic demand recovers.

#### NFDM / WDM

Production of NFDM is expected to follow the pattern as butter. Production decreases caused by lower fluid milk supply will not prevent increased exports in 2015.

### Dried Milk\* Monthly Output, MT



Source: State Statistics Service of Ukraine

\* NFDM +WDM combine

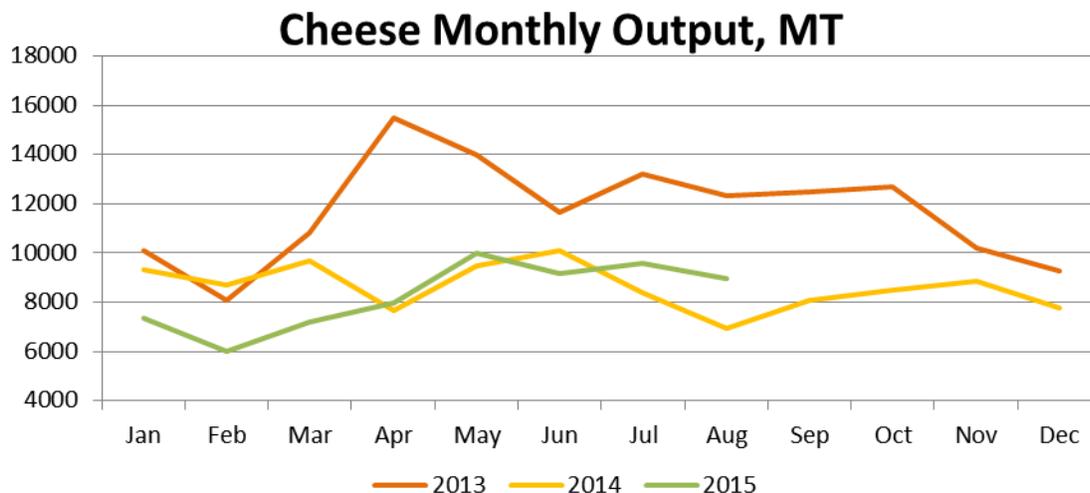
In 2016, domestic consumption and exports are expected to stabilize close to the 2015 level. Because of the lack of foreign cheese markets, more fluid milk will have no other option than to be diverted into NFDM. Production of NFDM continues to be tied to the world market situation for dried milk as a significant share of the product is exported. Producers remained dissatisfied with the domestic market price that reached 1,600- 1,800 USD/MT in the late summer of 2015. At the same time international traders were ready to buy Ukrainian NFDM only with a significant quality

discount close to 1550-1600 USD/MT.

Production of WDM in 2105 will remain insignificant. Domestic demand for this product comes from processors, which have decreased their demand for the product due to processed product consumption drop. Situation in 2016 is expected to remain the same.

### Cheese

Production of cheese decreased significantly following closure of Russian market. Domestic consumers were not able to increase or even sustain the same consumption level. No new export markets were developed in 2014-15 to support production. The currency devaluation that helped to boost butter and NFDM foreign sales had little impact on cheese. Ukrainian cheese is different from the widely traded Edam-type European hard cheese with little demand outside of Ukraine and other FSU countries.



*Source: State Statistics Service of Ukraine*

Being a high-margin product, cheese remains attractive for Ukrainian processors. However, a lack of foreign markets has led to a carryover stock increase.

### **Consumption:**

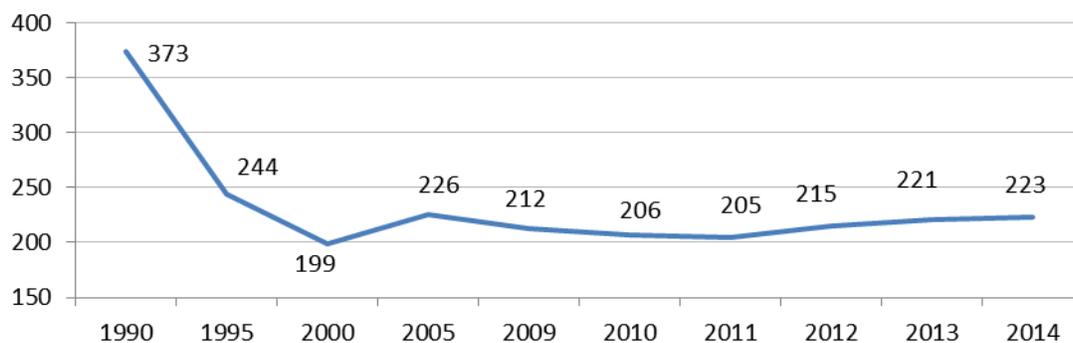
Consumption was negatively impacted by political and economic crisis that Ukraine entered in the early 2014. The IMF projects Ukraine's GDP will grow 2 percent in 2016 after a 9 percent decrease in 2015. The IMF also projects that inflation as measured by the Consumer Price Index (CPI) for Ukraine will slow to 20 percent in 2016 after reaching whopping 46 percent in 2015. Devaluation of the Ukrainian Hryvnia (UAH) mentioned in [UP1504 GAIN Report](#) continued in 2015 with the UAH/USD ratio fluctuating between 16 and 33. The unofficial exchange rate exhibited even larger swings. As a result of these devaluations, disposable incomes took a deep dive in 2014, and then plummeted even more in 2015.

The separatist movement in Eastern Ukraine negatively impacted domestic consumption. It is

difficult to evaluate number of people that live in the districts that are not controlled by central government. Estimates range from 3.5 to 4 million people within the two regions. This number does not include 1.9 million population of Crimea which also has restricted access to Ukrainian dairy products. As such, large Ukrainian dairy processors were not able to supply dairy-deficient Crimea. Some trade was taking place in 2014/15, although stopped completely in late September of 2015.

Dairy products remain staple food in Ukraine and consumption remains stable despite the economic turmoil. However consumption structure changed considerably in 2014. A significant share of low-income consumers stopped buying processed dairy products in official stores switching to basic traditional dairy products from open-air markets. This includes soft cottage cheese to replace hard cheese, sour cream and fluid milk.

### Per Capita Consumption of Milk and Dairy Products, kg/year



Source: *State Statistics Service of Ukraine*

The PSD numbers were changed to match official production and trade statistics. The new PSD includes carry-over stocks officially reported by producers of the State Statistics Service on a monthly basis. This carry-over stock does not include trade stocks and products procured for the State Reserve of Ukraine. Official ending stocks will be used in PSD's tables in the future as their impact on consumption and trade can be significant.

#### Trade:

Political turmoil did not allow for the signing of the Association Agreement with the European Union (EU) in November 2013. However, the EU unilaterally opened its market under the terms and conditions outlined in the Deep and Comprehensive Free Trade Agreement (part of the Association Agreement). So far, Ukraine was not able to benefit from liberalized trade due to its lack of proper legislative framework and the inability of many dairy processors to match EU sanitary requirements. However, the Directorate-General for Health and Consumers (DG SANCO) audits were recently completed and the EU market can potentially be opened for selected Ukrainian companies.

Dairy exports to Russia in 2015 remained under 2 thousand MT with buttermilk/kefir responsible for the vast majority of this number. Although 11 Ukrainian dairy processors, including cheese

producers, are [eligible](#) for exports to Russia, trade in dairy products in 2015 remained insignificant and is not expected to grow in 2016. On January 1<sup>st</sup> 2016, when the full-scale Association Agreement between Ukraine and EU will be implemented, Russia plans to cancel all remaining trade preferences. This still grants Ukraine a standard “most favorite nation” status, but cancels all existing Ukraine-Russia FTA benefits. However, given the current trade situation, this is not expected to have any impact.

Continued currency devaluation had significant positive impact on some exportable dairy products. Historically exports of dried milk and butter were restricted by high fluid milk prices. Cheese production for the Russian market was always preferred by the processors and other products were unable to compete for limited supply of fluid milk. The situation changed in 2014 when cheese lost its role as the dominate export commodity. Ukrainian dairy processors were forced to diversify their product lines, search for new markets for Ukrainian dried milk, and restore traditional export markets.

Ukrainian exports now goes into 2 groups of countries: Former Soviet Union countries that import predominately cheese, butter and whole dairy products, and importers of Ukrainian dried milk from Asia and Arica.

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#### Ukraine’s Major Export Destinations for Dairy Products (HS 04, 21, 17, 35) Jan-June 2015, MT

Partner Country	Quantity			% Share			% Change
	2013	2014	2015	2013	2014	2015	2015/2014
World	80747	77327	74118	100	100	100	-4.15
Moldova	8078	8330	9226	10.0	10.8	12.5	10.76
Kazakhstan	5585	8313	4878	6.9	10.8	6.6	-41.32
Bangladesh	250	1950	4352	0.3	2.5	5.9	123.2
Georgia	1977	2770	4350	2.5	3.6	5.9	57.05
Turkmenistan	4948	3220	4217	6.1	4.2	5.7	30.96
Egypt	323	1246	4178	0.4	1.6	5.6	235.3
Uzbekistan	1076	1288	3912	1.3	1.7	5.3	203.75
Pakistan	702	1286	3629	0.9	1.7	4.9	182.19
Azerbaijan	3060	2135	2962	3.8	2.8	4.0	38.7
Armenia	1052	2083	2238	1.3	2.7	3.0	7.48
Poland	922	1016	1952	1.1	1.3	2.6	92.05
Russia	39398	23666	1621	48.8	30.6	2.2	-93
Others	13374	20022	26600	16.52	25.86	35.84	n/a

Source: Global Trade Atlas

#### Cheese

Exports of cheese in 2015 dropped to insignificant levels as the majority of export markets are in the Former Soviet Union countries. No markets were found to replace Russia as a major consumer of Ukrainian cheese. Imports of cheese from Poland for the middle income market

segment, and Germany, Netherlands and Italy for upper income consumers reached 2,000 MT.

#### Ukraine's Major Export Destinations for Cheese\* (Jan-Jul 2015, MT)

Partner Country	Quantity			% Share			% Change 2015/2014
	2013	2014	2015	2013	2014	2015	
World	33566	16393	3128	100.00	100.00	100.00	- 80.92
Kazakhstan	3377	2408	1748	10.06	14.69	55.88	- 27.42
Moldova	663	558	735	1.97	3.40	23.51	31.82
Azerbaijan	126	135	209	0.38	0.82	6.68	54.58
Russia	29311	11716	0	87.32	71.47	0	- 100.00
Others	88	1576	434	0.26	9.61	13.87	n/a

Source: Global Trade Atlas

\*FAS Definition for the product group is used

#### NFDM

Export of NFDM remains diversified with over 50 percent of sales distributed among 25 destination markets. The low quality of Ukrainian milk pushes it into price-sensitive markets mostly in Asia and North Africa. Exports of NFDM in 2015-16 are expected to stay high as no other exportable product can be used to utilize shrinking fluid milk supplies.

#### Ukraine's Major Export Destinations for NFDM\* (Jan-Jul 2015, MT)

Partner Country	Quantity			% Share			% Change 2015/2014
	2013	2014	2015	2013	2014	2015	
World	5036	18077	20181	100.00	100.00	100.00	11.64
Bangladesh	100	1925	3752	1.99	10.65	18.59	94.93
Georgia	386	1013	1807	7.67	5.60	8.95	78.42
Kazakhstan	150	3019	1451	2.98	16.70	7.19	- 51.95
Egypt	25	881	1361	0.50	4.87	6.75	54.53
Pakistan	0	381	1300	0.00	2.11	6.44	241.21
Russia	1723	1848	0	34.22	10.22	0.00	- 100.00
Others	2652	9011	10509	52.66	49.85	52.07	n/a

Source: Global Trade Atlas

\*HS040210

#### Butter

Ukrainian producers were quite successful finding new markets for butter, especially Morocco and Egypt. These new export destinations accompany traditional FSU markets. Exports of butter are expected to increase in 2015 and decrease in 2016 as domestic demand recovers.

**Ukraine's Major Export Destinations for Butter\* (Jan-Jul 2015, MT)**

Partner Country	Quantity			% Share			% Change
	2013	2014	2015	2013	2014	2015	2015/2014
World	600	2241	6022	100.00	100.00	100.00	168.72
Morocco	0	0	1808	0.00	0.00	30.02	0.00
Egypt	0	0	1267	0.00	0.00	21.04	0.00
Azerbaijan	71	71	561	11.79	3.18	9.32	688.05
Kazakhstan	5	40	519	0.84	1.79	8.63	1198.21
Turkey	0	22	508	0.02	0.99	8.44	2196.96
Armenia	0	191	338	0.00	8.51	5.61	77.14
Georgia	16	107	241	2.60	4.77	4.00	125.37
Moldova	125	170	197	20.79	7.58	3.28	16.13
Russia	310	1460	0	51.70	65.16	0.00	- 100.00
Others	73	179	582	12.17	7.99	9.66	n/a

Source: Global Trade Atlas

\*FAS Definition for the product group is used

**Statistical Tables****Fluid Milk PSD Table\***

Dairy, Milk, Fluid	2014		2015		2016
	Market Year Begin: Jan 2014		Market Year Begin: Jan 2015		Market Year Begin: Jan 2016
	USDA Official	New Post	USDA Official	New Post	New Post
Cows In Milk	2,554	2,509	2,545	2,323	2,200
Cows Milk Production	11,200	11,152	11,200	10,700	10,100
Other Milk Production	310	274	310	250	230
Total Production	11,510	11,426	11,510	10,950	10,330
Other Imports	6	2	6	6	2
Total Imports	6	2	6	6	2
Total Supply	11,516	11,428	11,516	10,956	10,332
Other Exports	8	7	8	9	8
Total Exports	8	7	8	9	8
Fluid Use Dom. Consum.	5,580	5,538	5,908	5,497	5,124
Factory Use Consum.	4,728	4,730	4,400	4,450	4,250
Feed Use Dom. Consum.	1,200	1,153	1,200	1,000	950
Total Dom. Consumption	11,508	11,421	11,508	10,947	10,324

Total Distribution	11,516	11,428	11,516	10,956	10,332
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\*These are not official USDA numbers

### Cheese PSD Table\*

Dairy, Cheese	2014		2015		2016
	Market Year Begin: Jan 2014		Market Year Begin: Jan 2015		Market Year Begin: Jan 2016
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	9	9	10	8	12
Production	100	104	90	100	100
Other Imports	9	9	6	4	6
Total Imports	9	9	6	4	6
Total Supply	118	122	106	112	118
Other Exports	20	18	10	6	8
Total Exports	20	18	10	6	8
Human Dom. Consum.	88	96	88	94	100
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	88	96	88	94	100
Total Use	108	114	98	100	108
Ending Stocks	10	8	8	12	10
Total Distribution	118	122	106	112	118

\*These are not official USDA numbers

### Butter PSD Table\*

Dairy, Butter	2014		2015		2016
	Market Year Begin: Jan 2014		Market Year Begin: Jan 2015		Market Year Begin: Jan 2016
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	4	4	14	8	11
Production	115	115	110	105	100
Other Imports	10	10	3	0	1
Total Imports	10	10	3	0	1
Total Supply	129	129	127	113	112
Other Exports	4	5	6	11	7
Total Exports	4	5	6	11	7
Domestic Consumpt.	111	116	111	91	95
Total Use	115	121	117	102	102

Ending Stocks	14	8	10	11	10
Total Distribution	129	129	127	113	112

\*These are not official USDA numbers

#### Nonfat Dry Milk PSD Table\*

Dairy, Milk, Nonfat Dry	2014		2015		2016
	Market Year Begin: Jan 2014		Market Year Begin: Jan 2015		Market Year Begin: Jan 2016
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	2	2	2	5	8
Production	55	55	55	50	45
Other Imports	2	1	2	0	1
Total Imports	2	1	2	0	1
Total Supply	59	58	59	55	54
Other Exports	30	27	30	30	30
Total Exports	30	27	30	30	30
Human Dom. Consumpt	27	26	27	17	22
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	27	26	27	17	22
Total Use	57	53	57	47	52
Ending Stocks	2	5	2	8	2
Total Distribution	59	58	59	55	54

\*These are not official USDA numbers

#### Dry Whole Milk Powder PSD Table\*

Dairy, Dry Whole Milk Powder Ukraine	2013		2014		2015
	Market Year Begin: Jan 2013		Market Year Begin: Jan 2014		Market Year Begin: Jan 2015
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	0	0	0	0	0
Production	12	11	12	8	9
Other Imports	0	0	0	0	0
Total Imports	0	0	0	0	0
Total Supply	12	11	12	8	9
Other Exports	2	2	2	2	2
Total Exports	2	2	2	2	2
Human Dom. Consum	10	9	10	6	7
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	10	9	10	6	7
Total Use	12	11	12	8	9

Ending Stocks	0	0	0	0	0
Total Distribution	12	11	12	8	9

*\*These are not official USDA numbers*