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Ukraine

Livestock and Products Semi-annual

Report

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Report Highlights:

The political and economic crisis resulted in abrupt currency devaluation and red meat demand drop. Once sizable, pork imports decreased significantly. Ukrainian swine producers were forced to export.

The major export market in 2015 – Russia – introduced a Ukrainian pork import ban on January 1st 2016. This will sustain domestic consumption, but remarkably reduce exports in 2016. A substitution to lower-priced poultry products will continue. Pork import demand will continue only in the lowest market segments for further processing.

Executive Summary:

Political and economic crisis remained the major factor impacting production, supply and distribution of red meat in Ukraine. Sharp currency devaluations in 2014-15 undermined consumption and facilitated cheaper white meat substitution. However, economic turmoil resulted in some production cost drops due to input price decreases. In turn, this resulted in higher competitiveness of Ukrainian beef and pork on the international market.

Domestic consumption of red meat is expected to stabilize in 2016. This forecast assumes minimal influence of external political and economic factors.

Trade is expected to remain extremely turbulent as the major traditional export market of Russia was completely closed on January 1st, 2016. A surge of exports of red meat to Russia took place in 2015 despite political and economic tensions. Russia consumed 77 percent of all beef and 96 percent of all pork exports. No new export markets were developed for these products. Traditional markets in the Former Soviet Union (FSU) countries are small and suffer from their own currency devaluations and demand drops.

Trade in beef is likely to suffer the least as exports of live animals to Middle east and Central Asia countries resumed 3 years ago after elimination of export duties. This will eliminate excess beef supply leading to an increase in animal exports. Pork is likely to return to the domestic market, sustaining local consumption. However non-Russia exports are likely to continue as pork prices decrease.

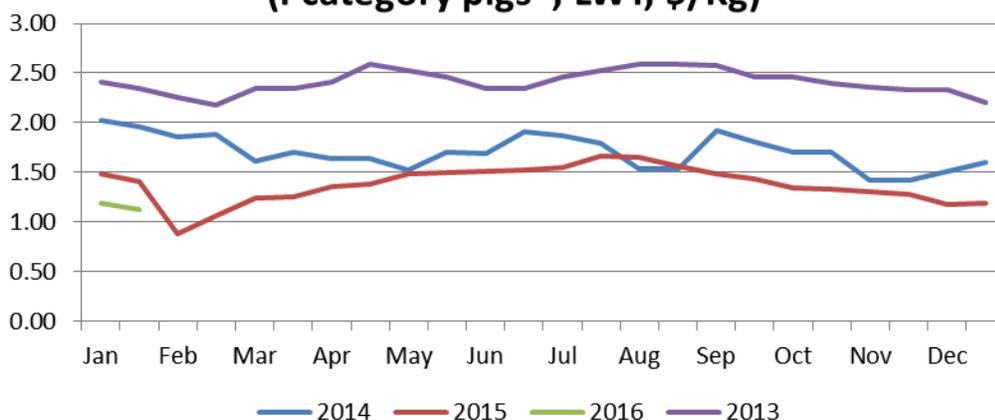
Important FAS Comments on the Numbers Used: The PSD tables were updated to reflect correction in the official year-end statistics and corrected data for Crimea. Crimea animal numbers and meat production were included into the PSD. Official statistics do not record trade in red meat with territories that are not controlled by the Ukrainian government and that might be receiving some product from Russia. Official statistics also do not include production numbers from the uncontrolled territories, although production there dropped significantly.

Production

Pork production remains depressed by plummeting domestic demand. Pig procurement price calculated in USD remained well under the 2014 price. 2016 started with even lower prices without the traditional new year price peak. The situation in 2016 is expected to stabilize, but a minor production drop is expected. Consumers are re-orienting to more affordable poultry products, and the trend is supporting poultry production growth at the expense of red meat producers.

Industrial growers that depended on foreign investments experienced difficulties servicing their hard currency denominated loans.

Meatpackers' Procurement Price for Pigs (I category pigs*, LWT, \$/Kg)

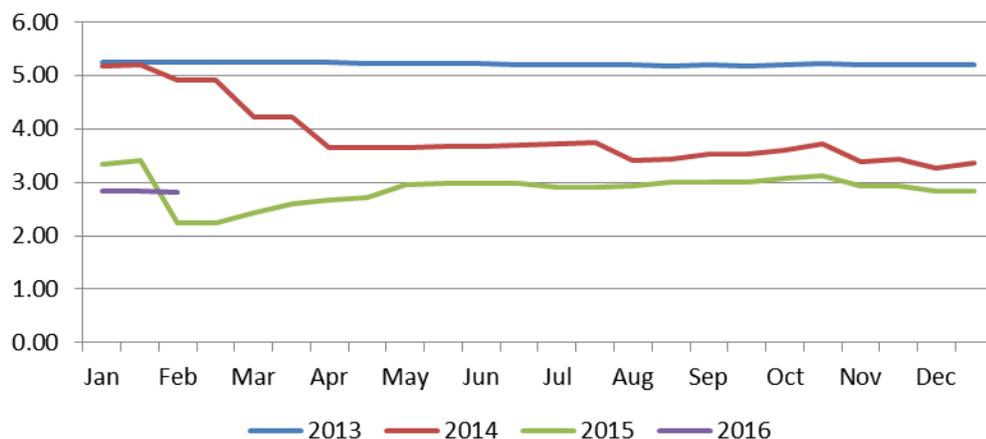


Source: Association of Pig Breeders of Ukraine (pigua.info), National Bank of Ukraine, FAS/Kyiv calculations

*Category1 pigs are high-quality animals of 105-115 kg and 20 mm and less of back fat

Ukrainian beef production remains to be a function of milk production and prices. Low milk prices often lead to cattle number drops. However, access to foreign markets for live animals for slaughter cushions price drops.

Retail Beef Price, USD/kg

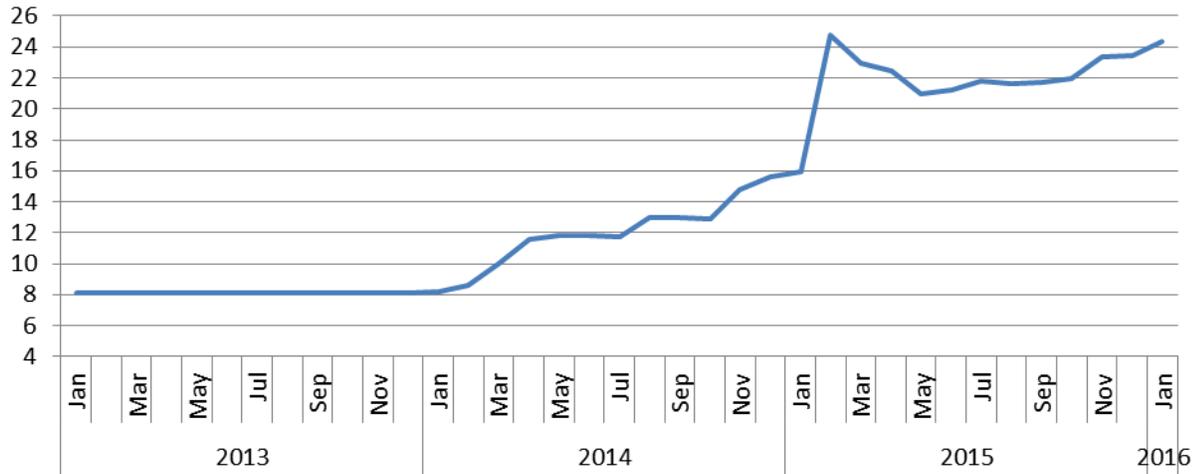


Source: Association of Dairy Producers of Ukraine, National Bank of Ukraine, FAS/Kyiv calculations

According to UN's Food and Agriculture Organization data, profitability of milk production in 2015 dropped by 31 percent in comparison to 2014, and by 36 percent in comparison to 2013. These drops ignited major animal number decreases over these years. Although the situation somewhat stabilized in 2016, some animal number drop is still expected due to falling milk prices and relatively stable beef price.

Although no major currency shocks are expected, slow currency devaluation is expected to continue eroding real sales values.

UAH/USD Exchange Rate

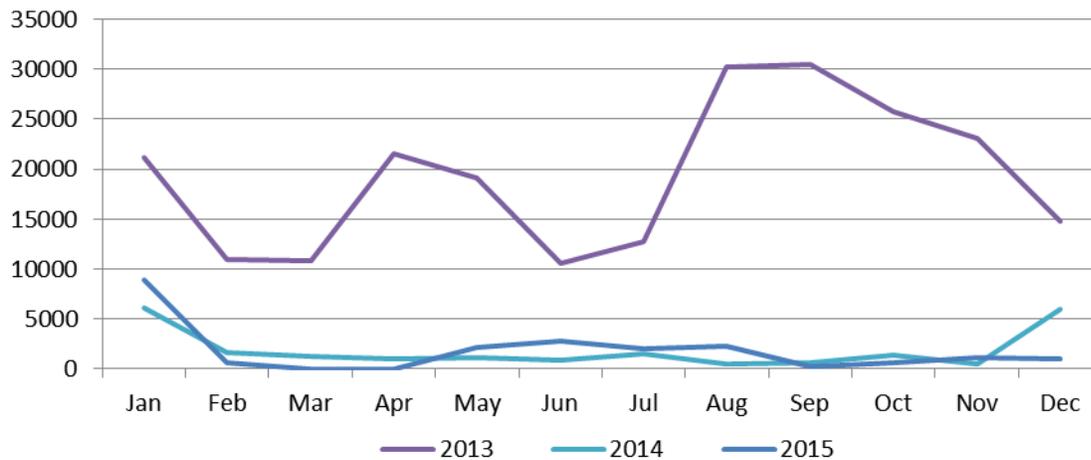


Source: National Bank of Ukraine data on Interbank Commodity Exchange, FAS/Kyiv own calculations

By mid-February, when this report was drafted, the Interbank exchange rate approached 27 UAH/USD. Attractiveness of the domestic red meat market will likely remain undermined in the remaining months of 2016, pushing Ukrainian beef and pork supplies outside of the country.

Live pig imports remain low in 2015 and are not expected to recover in 2016. Small and medium sized agricultural producers that specialized in pigs fattening stopped production due to low pork prices. Procuring foreign currency for imports remains complicated due to administrative barriers of Ukrainian financial regulators.

Import of Live Pigs , Heads



Source: Global Trade Atlas

Consumption

Consumption of red meat products will remain subject to disposable income changes and currency exchange rate. Although no major devaluation is expected, slow devaluation noted in early months of 2016 will have negative impact.

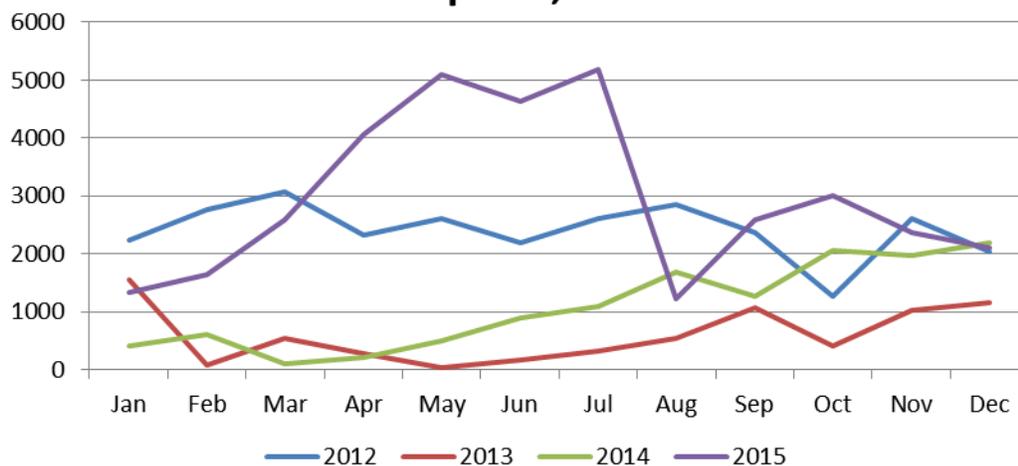
Trade

Exports

The major development impacting trade in red meat products is closure of the Russian market starting January 1st 2016.

The vast majority of Ukrainian red meat exports were going to Russia despite significant political tensions between the two countries. Restrictive import policies toward the rest of the world increased Russian domestic prices for red meats, making it very attractive for Ukrainian producers. The surge in Ukraine's exports to Russia in 2015 was not expected as Ukrainian dairy, vegetables, fruits, some grains and oilseeds had been banned by the Russian Government in August 2014. Red meat exports were not expected to survive for long. However, in early 2015 Russian top leaders made statements that Ukrainian product market access will be conditioned to Ukraine's full implementation of the Deep and Comprehensive Free Trade Agreement with the EU. Ukraine granted access to EU products on January 1st 2016 and Russia closed the border.

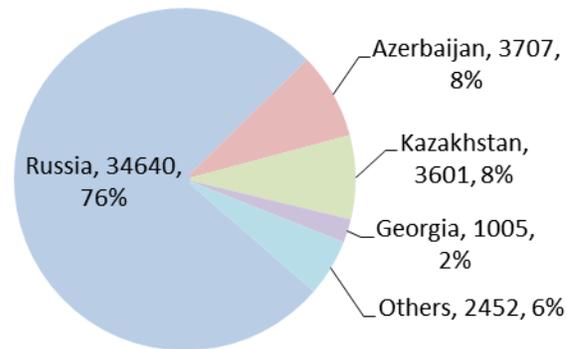
Pork Exports, MT CWE



Source: Global Trade Atlas

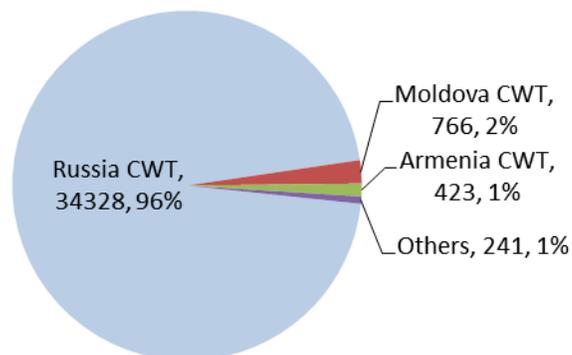
It is not clear how Ukraine's red meat export market will look in 2016, since Russia dominated market share of beef and pork exports.

Ukraine Beef Exports in 2015, CWT



Source: Global Trade Atlas

Ukraine's Pork Exports in 2015, CWT

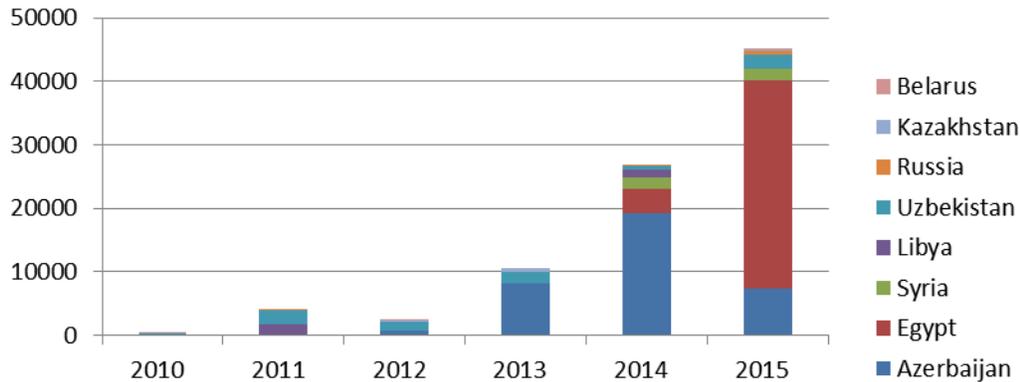


Source: Global Trade Atlas

Ukraine is likely to increase exports of live animals to compensate for loss of the Russian beef market. Sizable export markets for live animals were developed in Central Asia, Middle East and Maghreb countries. According to the Ukrainian Fiscal Service, applied export duties for live animals decreased to 10 percent in 2015. However, the GOU is proposing to decrease import duties even further – to 3 percent (with the exception of heifers and cows over 300 kg). This will facilitate exports significantly, supporting livestock farmers, but decreasing in-country slaughter.

The current PSD table is based on the existing 10-percent export duty. Nevertheless, closure of the Russian beef market will lead to live animal export increases even with the 10 percent duty applied. As Ukrainian exports have dramatically increased in recent years, port infrastructure bottlenecks and logistical problems are likely to occur.

Ukraine's Live Animal Exports



Source: Global Trade Atlas

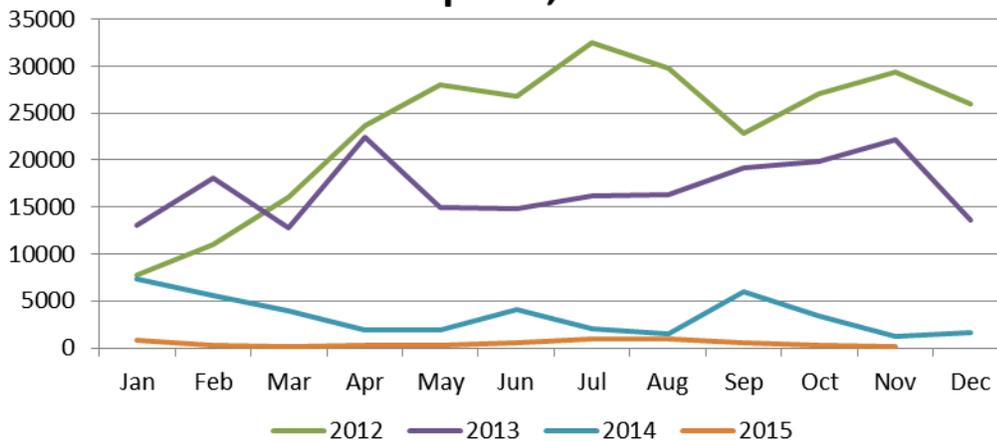
Imports

Imports of red meat into Ukraine will remain close to all-time lows despite elimination of a 10 percent import duty surcharge that was introduced in 2015 to eliminate enormous balance of payment deficits. Under international and WTO pressure that import duty application was discontinued on January 1st 2015.

No import demand is expected through the end of 2016 due to low disposable incomes and the expected higher domestic supplies as red meat exports will drop due to closure of the Russian market.

Imports of pork in 2016 will remain insignificant with the vast majority of imports in the lowest market segment – cheap cuts and offal for further processing.

Pork Imports, Tons CWE



Source: Global Trade Atlas

Imports of beef will also remain insignificant, although US suppliers were successful in gaining a market share in the premium market segment. The imported quantity is not big

and is not likely to exceed 100-150 MT, although per unit price is very high. U.S. chilled cuts delivered by air are demanded by steak restaurants in major urban centers where only minor deterioration in the top market segment was noted.

Section II Statistical Tables *

Animal Numbers, Cattle	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Ukraine	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	4,534	4,534	4,408	3,996	3550	3,902
Dairy Cows Beg. Stocks	2,509	2,501	2,432	2,322	2200	2,231
Beef Cows Beg. Stocks	33	33	28	28	23	24
Production (Calf Crop)	2,460	2,377	2,350	2,300	2050	2,230
Total Imports	1	1	1	1	0	0
Total Supply	6,995	6,912	6,759	6,297	5600	6,132
Total Exports	27	27	20	45	55	55
Cow Slaughter	0	0	0	0	0	0
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	2,515	2,843	2,496	2,310	2104	2,187
Total Slaughter	2,515	2,843	2,496	2,310	2104	2,187
Loss	45	46	43	40	41	40
Ending Inventories	4,408	3,996	4,200	3,902	3400	3,850
Total Distribution	6,995	6,912	6,759	6,297	5600	6,132

**Not Official USDA Data*

Animal Numbers, Swine	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Ukraine	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	7922	7922	7777	7492	7300	7245
Sow Beginning Stocks	502	502	490	480	480	460
Production (Pig Crop)	9650	9527	9400	9200	9000	8900
Total Imports	22	22	20	22	30	24
Total Supply	17594	17471	17197	16714	16330	16169
Total Exports	1	1	1	1	0	0
Sow Slaughter	0	0	0	0	0	0
Other Slaughter	9167	9175	9000	8718	8530	8519

Total Slaughter	9167	9175	9000	8718	8530	8519
Loss	649	803	646	750	700	650
Ending Inventories	7777	7492	7550	7245	7100	7000
Total Distribution	17594	17471	17197	16714	16330	16169

**Not Official USDA Data*

Meat, Beef and Veal	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Ukraine	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	2899	2843	2585	2310	2104	2187
Beginning Stocks	15	15	15	15	15	15
Production	428	429	380	410	310	370
Total Imports	3	3	1	2	1	1
Total Supply	446	447	396	427	326	386
Total Exports	30	30	45	45	12	15
Human Dom. Consumption	401	402	336	367	299	356
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	401	402	336	367	299	356
Ending Stocks	15	15	15	15	15	15
Total Distribution	446	447	396	427	326	386

**Not Official USDA Data*

Meat, Swine	2014		2015		2016	
Market Begin Year	Jan 2014		Jan 2015		Jan 2016	
Ukraine	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	9154	9175	8789	8718	8530	8519
Beginning Stocks	22	22	22	22	22	22
Production	780	766	750	730	730	710
Total Imports	41	41	4	5	5	5
Total Supply	843	829	776	757	757	737
Total Exports	13	13	35	36	8	10
Human Dom. Consumption	808	794	719	699	727	705
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	808	794	719	699	727	705
Ending Stocks	22	22	22	22	22	22
Total Distribution	843	829	776	757	757	737

**Not Official USDA Data*