

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

Voluntary Public

Date: 3/6/2015

GAIN Report Number: UP1511

Ukraine

Post: Kiev

Livestock and Products Update

Report Categories:

Livestock and Products

Approved By:

Jorge A. Sanchez, Agricultural Attaché

Prepared By:

Alexander Tarassevych, Agricultural Specialist

Report Highlights:

The political and economic turmoil in Ukraine prompted a sharp decrease in red meat imports and a contraction in consumption. In 2015, production will continue to decline impacted by currency exchange rate swings, weakening domestic demand, and a substitution to lower-priced poultry products.

Ukraine will maintain limited red meat exports supported in part by a weak national currency. Imports will remain low. Ukraine is not expected to fulfill Europe's import TRQs due to the lack of approved facilities. Access to products from the European Union (EU) into Ukraine's market will remain subject to import duties. Import demand will continue to concentrate on the lowest market segments for further processing.

Executive Summary

The political and economic crisis, including military and police operations in Eastern Ukraine, had a profoundly adverse impact on the red meat market. Ukraine's currency – Hryvna (UAH) has taken a deep dive devaluating from UAH/USD 8.1 in January 2013 to UAH/USD 25.0 in early March 2015 when this report was drafted. This devaluation increased production costs for Ukrainian producers most of which sell their product domestically, but source a portion of their production inputs from abroad (such as veterinary drugs, feed additives, machinery and spare parts). While larger producers were able to benefit from the increase in local currency revenue, they also undertook significant losses due to hard currency bank loans and a significant cost increases to inputs.

In 2015, local consumer purchasing power will continue to slide, driven down by both the economic crisis and devaluation's impact on salaries and overall employment. Demand for animal meat protein shifted toward poultry and pork and beef consumption. A large portion of beef and pork consumption was priced out of the market due to inflationary impact that followed a series of devaluations. Exports of live bovine animals also became more profitable than domestic market sales. Many producers were forced to export in order to compensate for the lack of domestic demand. Imports were restrained. Remaining demand shifted toward affordable offal. In 2015, pork imports are expected to be only seven percent of its 2013 volume.

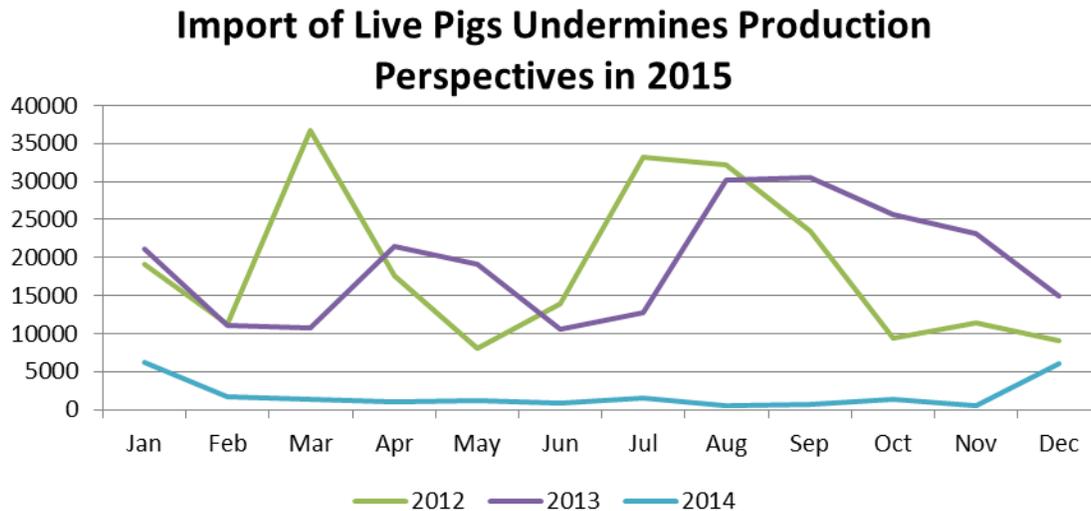
PSD numbers for 2014 were reviewed and correspond to official statistics. The numbers for the temporally occupied territory of Crimea were added to official statistics. Export forecasts for both 2014 and 2015 have been changed to reflect recent trends.

Production and Trade

Industrial pork production in Ukraine is expected to contract following a decline in consumer demand. Consumers are reorienting to more affordable poultry products, and trend supporting poultry production growth at the expense of red meat producers. Pork farmers were forced to increase their selling prices to UAH denominated prices from UAH 32/kg in early 2014 to UAH 35/kg by early 2015-- a modest 10 percent increase all other factors considered. However USD denominated prices exhibited a sharp drop putting producers on the verge of bankruptcy and making imports nearly impossible. The situation worsened in early 2015 after the UAH devaluation accelerated. Many producers reported losses caused by the decrease in real prices.

Source: National Bank of Ukraine data on Interbank Commodity exchange, own calculations

Live pig imports for fattening in Ukraine serve as good indicator of the swine industry's current condition. The 2014 data leaves little room for optimism despite a moderate spur in imports in December.



Source: World Trade Atlas

Consumption

In 2012-13 red meat consumption showed signs of stabilization. Now significant price increases undermines this stability. Substantial production momentum had a positive stabilizing impact in 2014, although there was a moderate drop in consumption which was tied to a decrease in imports. The situation is expected to worsen in 2015 with the new round of devaluation accelerating this decline in imports. The growth in UAH-denominated salaries in 2014 was negligible and did not contribute to consumption stabilization. Consumption in 2015 is expected to shift into a lower-priced market segment and remain below 2014 numbers.

Contrary to market expectations, the pork industry (producing lower-priced meat) is likely to suffer a bit more. Modern industrial facilities respond well to market signals and would not run unprofitable operations. Importers are cautiously price-sensitive and react to currency fluctuations almost immediately. The share of households (subsistence farming) involved in pork production is 53 percent of total production. It is much lower than other livestock production, although households have also responded to the economic crisis by decreasing production.

Beef production in Ukraine was always viewed as an offset of the dairy industry, and beef availability will depend on the dairy market's situation. The number of animals in household plots is significantly higher and approaches to 80 percent. Milk production in villages is viewed as a safety net and often maintained through unfavorable economic conditions. The production cycle in the dairy industry is even longer and animal contraction in response to the unfavorable price situation also takes much

longer.

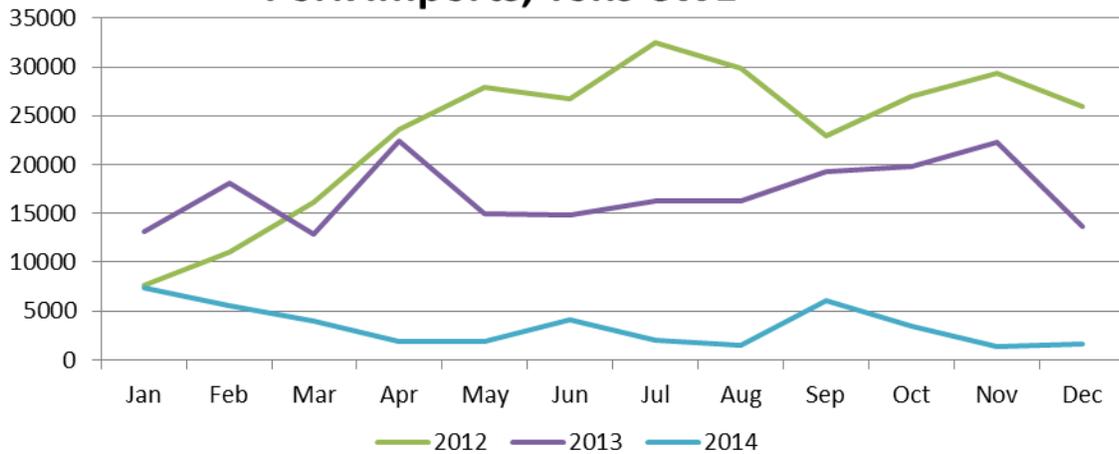
Trade

Reliable trade forecasts are hardly possible in the current environment. Significant devaluation made most imports unprofitable. Exports of beef and pork are somewhat boosted by production cost decreases. A significant share of inputs is of domestic origin (such as labor cost, bulk feed, electricity, water etc.), however most market players view devaluation as a risk factor, not an opportunity or benefit. Traders also blame wild currency swings for their inability to forecast revenue and conduct trade. A week before this report was drafted, the UAH took a deep dive reaching almost UAH 39 per 1 USD. After a short-term currency trade halt, the UAH bounced back to almost UAH 25 per 1 USD. Simultaneously additional restrictions from the National Bank of Ukraine complicated purchases significantly. It is not clear how trade operations can be conducted when the domestic currency remains subject to massive speculative attacks and administrative pressures.

Access to foreign currency remains restricted. Importers have to deposit their Hryvnas into special accounts in order to purchase foreign currency. Hryvnas must stay in these accounts for three days before purchases can be made. Importers have no idea whether they deposited a sufficient sum to cover the contract cost given unpredictable exchange rate fluctuations. Importers betting blind having no idea what the future exchange rate will be and are without any tools to hedge against their currency exchange risk. In private conversation, many importers stated that their currency exchange attempts in December 2014 and January 2015 were delayed significantly. Some had to delay purchases for up to two weeks. There are multiple additional restrictions imposed by the National Bank of Ukraine on prepaid products or on companies already holding foreign currency in their accounts. In such cases, traders are not able to plan for currency purchases or sales.

To complicate matters for imports even further, the Government of Ukraine introduced an additional ten-percent duty surcharge on all imported food products. The Law was officially published in late February 2015. For more information please refer to GAIN Report UP1508 [Ukraine Imposed Additional 5-10 Percent Duties on Import. Kiev, Ukraine 2-25-2015](#). As justification for the surcharge, the Ukrainian Government referenced the General Agreement on Tariffs and Trade 1994 (GATT, 1994) and Understanding on the Balance-of-Payments Provisions of the GATT 1994. Given currency problems, some importers referred to this new policy as adding insult to injury.

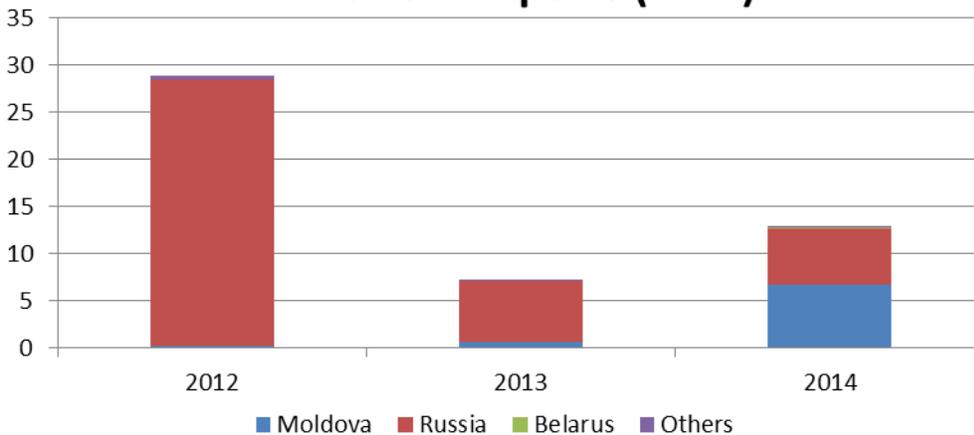
Pork Imports, Tons CWE



Source: World Trade Atlas

Pork imports remained low throughout 2014. The situation in early 2015 is expected to worsen due to continued and abrupt devaluation.

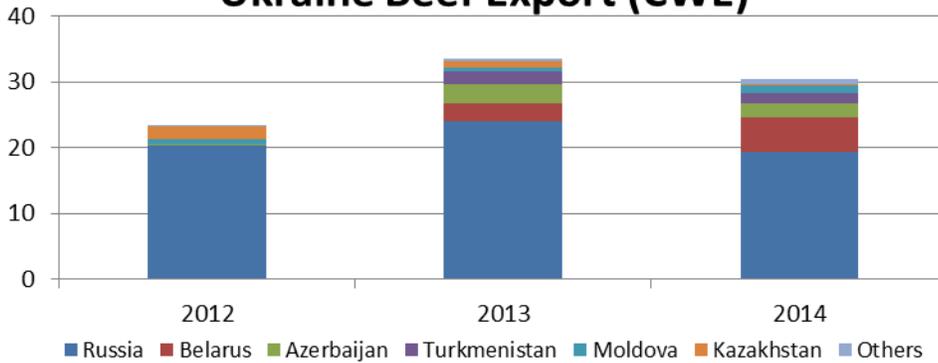
Ukraine Pork Exports (CWE)



Source: World Trade Atlas

Exports of pork increased and are expected to remain above 2013 numbers in 2015. Russia maintains its import ban on Ukraine, but shipments of Ukrainian pork to Crimea continue. Ukraine's share in Moldova's market also increased significantly. Moldova is also suffering from the economic crisis and devaluation of its local currency: Lei. Imports have become overly expensive with the exception of suppliers also finding themselves in crisis: Ukraine.

Ukraine Beef Export (CWE)



Source: World Trade Atlas

Ukraine's beef exports remain stable with Russia being the major market despite imposing import restrictions. This situation is expected to continue in 2015 as Crimea remains highly dependent to Ukrainian supplies.

Beef imports are insignificant and concentrate mostly in the upper market segments for high end steak houses and the hotel and restaurant sector. U.S. products have limited reach, though they have earned a stable market presence likely to remain or only slightly contract in 2015, supported by the fact that there are no substitutes to high quality U.S. beef.

Section II Statistical Tables *

Animal Numbers, Cattle	2013		2014		2015	
Market Begin Year	Jan 2013		Jan 2014		Jan 2015	
Ukraine	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	4,646	4,646	4,534	4,534	4,100	4,408
Dairy Cows Beg. Stocks	2,554	2,554	2,509	2,509	2,450	2,432
Beef Cows Beg. Stocks	36	36	33	33	29	28
Production (Calf Crop)	2,518	2,518	2,500	2,460	2,425	2,350
Total Imports	3	3	3	1	3	1
Total Supply	7,167	7,167	7,037	6,995	6,528	6,759
Total Exports	11	11	20	27	20	20
Cow Slaughter	0	0	0	0	0	0
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	2,573	2,573	2,874	2,515	2,540	2,496
Total Slaughter	2,573	2,573	2,874	2,515	2,540	2,496
Loss	49	49	43	45	43	43
Ending Inventories	4,534	4,534	4,100	4,408	3,925	4,200
Total Distribution	7,167	7,167	7,037	6,995	6,528	6,759

**Not Official USDA Data*

Animal Numbers, Swine	2013		2014		2015	
Market Begin Year	Jan 2013		Jan 2014		Jan 2015	
Ukraine	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	7,577	7,577	7,922	7,922	7,650	7,777
Sow Beginning Stocks	488	488	502	502	490	490
Production (Pig Crop)	9,465	9,465	9,700	9,650	9,450	9,400
Total Imports	231	231	20	23	20	20
Total Supply	17,273	17,273	17,642	17,595	17,120	17,197
Total Exports	0	0	0	1	0	1
Sow Slaughter	0	0	0	0	0	0
Other Slaughter	8,672	8,672	9,342	9,167	8,870	9,006
Total Slaughter	8,672	8,672	9,342	9,167	8,870	9,006
Loss	679	679	650	650	650	640
Ending Inventories	7,922	7,922	7,650	7,777	7,600	7,550
Total Distribution	17,273	17,273	17,642	17,595	17,120	17,197

**Not Official USDA Data*

Meat, Beef and Veal	2013		2014		2015	
Market Begin Year	Jan 2013		Jan 2014		Jan 2015	
Ukraine	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	2,573	2,573	2,874	2,515	2,540	2,496
Beginning Stocks	15	15	15	15	15	15
Production	428	428	460	422	425	410
Total Imports	5	5	2	3	2	4
Total Supply	448	448	477	440	442	429
Total Exports	34	34	24	30	24	30
Human Dom. Consumption	399	399	438	395	403	384
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	399	399	438	395	403	384
Ending Stocks	15	15	15	15	15	15

**Not Official USDA Data*

Meat, Swine	2013		2014		2015	
Market Begin Year	Jan 2013		Jan 2014		Jan 2015	
Ukraine	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Slaughter (Reference)	8,672	8,672	9,342	9,167	8,870	9,006
Beginning Stocks	22	22	22	22	22	22
Production	748	748	810	810	770	700
Total Imports	204	204	35	41	45	15
Total Supply	974	974	867	873	837	737
Total Exports	7	7	6	13	7	20
Human Dom. Consumption	945	945	839	838	808	695
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	945	945	839	838	808	695
Ending Stocks	22	22	22	22	22	22
Total Distribution	974	974	867	873	837	737

**Not Official USDA Data*

