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Ukraine

Poultry and Products Annual

Report

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Report Highlights:

Despite a sharp fall in Ukraine's GDP in 2015, broiler meat poultry production remained stable and is projected to increase 2 percent to 995,000 metric tons (MT) in 2016. Broiler meat exports are projected to increase to 190,000 MT in 2016; up from 180,000 MT in 2015. Efficient, vertically integrated poultry producers assisted by support from international financial institutions should continue to expand and increase market share. Ukrainian exporters will continue to pursue expansion of exports to the EU, Middle East and Far East. Iraq may remain the top export market by volume although the EU overtook Iraq during the first half of 2015 as Ukraine's largest market by value accounting for \$28 million of Ukraine's broiler meat exports.

Executive Summary:

Despite the challenging economic environment in Ukraine, broiler meat production is expected to expand 2 percent in 2016 to 995,000 metric tons (MT). The continued expansion of production reflects, in part, the resilience of Ukraine's large, vertically integrated producers and the support they have received from international financial institutions. Lower returns from domestic sales combined with increasing costs for inputs and debt servicing pegged to foreign currencies took a toll on industry profitability in 2015.

Exports of broiler meat are projected to increase to 190,000 MT in 2016 as poultry exporters continue to pursue higher returns by diversifying sales away from the domestic market. Driven by this trend, broiler meat exports are forecast to increase to 180,000 MT in 2015.

Expansion of Ukraine's broiler meat exports from less than 25,000 MT only five years ago has captured the attention of regional trading partners. For example, Moldova and Kazakhstan implemented temporary trade restrictions on Ukrainian broiler meat in 2015. Exports to the EU continue apace within allocated quotas and overtook Iraq as the largest export market by value during the first half of 2015. The EU market is considered to be lucrative but demanding as evidenced by the fact only two Ukrainian poultry production companies have been approved to export to EU markets. The Russian market remains officially closed to Ukrainian poultry meat exports as it has been since February 2014.

Imports of broiler meat are projected to remain at 60,000 MT in 2016.

Broiler Meat PSD Table, 1,000 MT*

Poultry, Meat, Broiler Ukraine	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
Production	964	964	980	975	995
Total Imports	56	56	40	60	60
Total Supply	1020	1020	1020	1035	1055
Total Exports	167	167	170	180	190
Human Consumption	853	853	850	855	865
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	853	853	850	855	865
Total Use	1020	1020	1020	1035	1055
Ending Stocks	0	0	0	0	0
Total Distribution	1020	1020	1020	1035	1055

*Not Official USDA Data. Note: Exports of chicken paws (Ukrainian HS 0207149900) to China, Vietnam and Hong Kong are excluded from exports.

Production

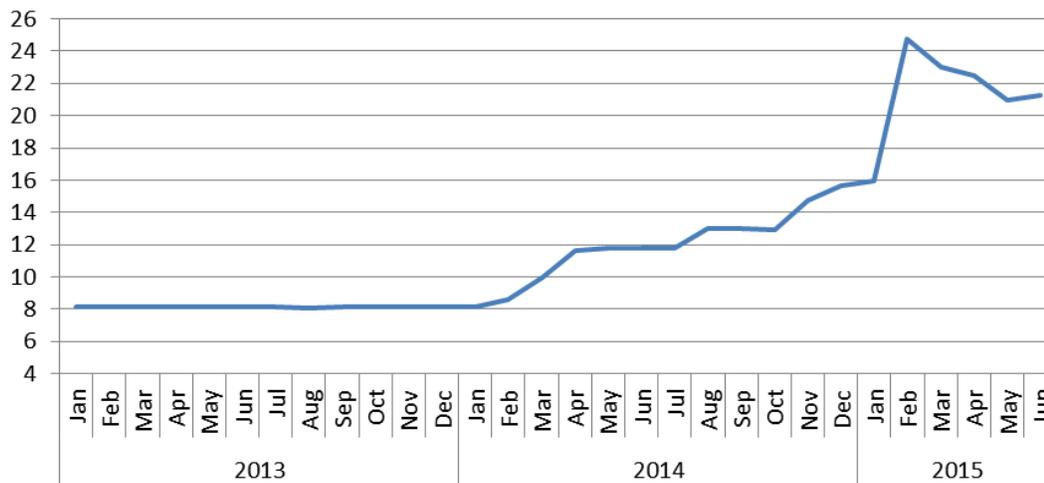
Projections from the IMF that inflation will slow to 20 percent in 2016 from 46 percent in 2015 and GDP will grow 2 percent in 2016 after a nine percent decline in 2015 offer some cause for optimism that profitability of the poultry sector will improve. Reflecting signs of improving economic conditions, ample availability of inexpensive feed from the 2015 crop, and expected stabilization of other input costs, broiler production is projected to increase modestly to 995,000 MT in 2016.

Large-scale Ukrainian industrial poultry production relies on foreign financing and (to a lesser extent) on imported inputs. The decline in dollar-denominated poultry prices had a negative effect on dollar-denominated loans and on producers’ foreign debt obligations. Imported inputs (e.g., hatching eggs, veterinary drugs, spare parts and equipment) contributed to increased production costs.

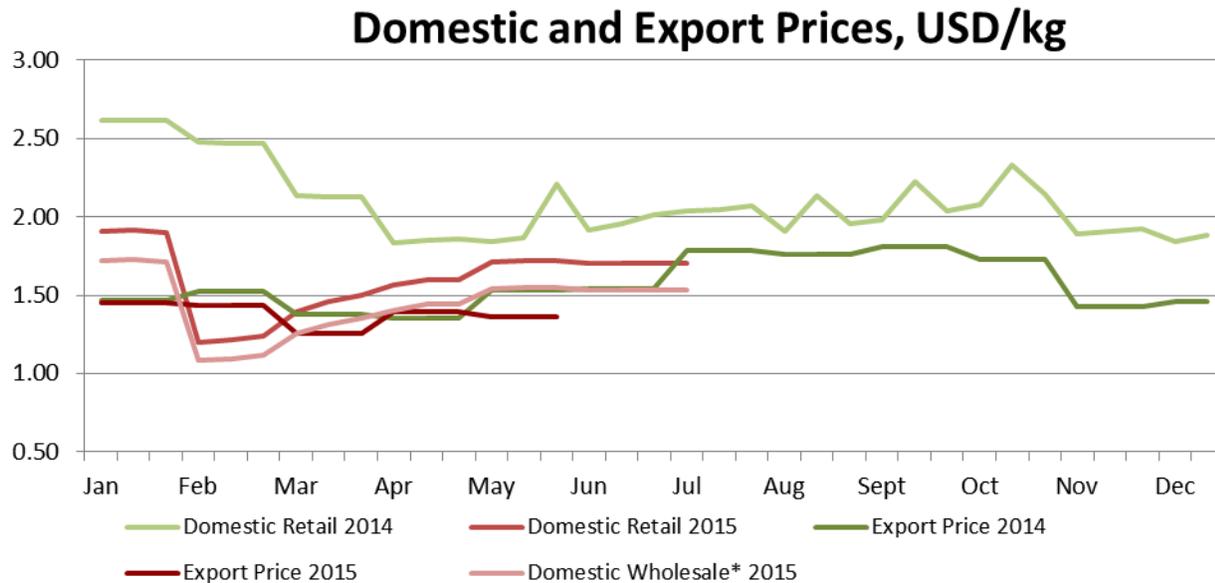
Market uncertainty will force the largest Ukrainian producers to adopt a more conservative development strategy. Many will have to put expansion plans on hold, concentrating on cash flow stabilization. Smaller producers without foreign market access will concentrate on survival.

Industry sources estimate that Ukrainian Hryvna (UAH) exchange rate depreciation since 2014 and other factors have led to a nominal increase in poultry production costs of 45 percent. Increasing nominal costs are particularly focused in feed, hatching eggs, and energy. Over the same period, industry sources estimate that nominal domestic broiler meat sales prices have only increased by 31 percent. This “price squeeze” could cause some consolidation within the industry as smaller-scale producers unable to weather the storm are forced to exit.

UAH/USD Exchange Rate



Source: National Bank of Ukraine, FAS/Kyiv calculations



Source: State Statistics Service based on Ministry of Economic Development and Trade Surveys;

Monthly Average Interbank Exchange rates used for calculations of 2014 prices; WTA data is used for declared export price, FAS/Kyiv calculations are used to define wholesale margins. Wholesale margins vary widely depending on the sales channel.

Major Producers

Myronivsky Hliboproduct (MHP) remains the largest poultry producer in the country representing over half of industrial poultry production in 2015. This vertically integrated company produces grains and sunflower protein, hatching eggs, and broilers. It has its own elevators, feed mills, slaughterhouses, meat processing plants and distribution chains. The company sells poultry to retailers and also markets its product directly via a company-owned franchising network serviced by a company-owned truck fleet with 15 distribution centers nationwide. In June 2015 the MHP acquired an additional 60,000 hectares in a deal with a Russia-based agriculture company. The deal also resulted in additional storage capacity of 90,000 MT for MHP. In exchange the company gave up its Russia-based subsidiary – the Voronezh Agro Holding, which included 40,000 hectares of land and 150,000 MT of elevator storage capacity.

Agromars is the second largest poultry producer in Ukraine. The company is privately-owned and pursues a conservative expansion strategy. Similar to MHP, the company is vertically integrated and produces its own feed and hatching eggs. The company relies on two production clusters located in northern Ukraine (close to Kyiv) and eastern Ukraine. Similarly to MHP, Agromars diversifies its sales by marketing to foreign markets (including the EU).

There are four mid-sized poultry producers in Ukraine that account for less than 15 percent of total production: Dniprovskaya Group of Companies, Agro-Oven, Volodymyr-Volynska Ptahofabryka and Ular Farms. In the wake of the difficult financial and economic conditions in

2015, these companies are expected to increase efforts to diversify sales into foreign markets. Previously, most mid-sized producers did not focus on export expansion aside from retaining historical trading relationships with companies in some Former Soviet Union (FSU) markets.

Consumption

Broiler meat consumption is expected to increase slightly in 2016 to 865,000 MT. Some contraction is expected to take place in the non-controlled areas of eastern Ukraine. Poultry meat is expected to remain the least expensive protein option in the traditional diet. Consequently, reduced consumption in the eastern areas is expected to be offset by some substitution of poultry meat for red meat and fish consumption in 2016. Demand for inexpensive poultry-based protein is expected to result in stable import demand for poultry offal imports in 2016.

Trade

Imports: Imports of poultry meat are projected to remain stable in 2016 at 60,000 MT comprised primarily of offal products originating in Poland and Germany. Full scale implementation of the EU-Ukraine Deep and Comprehensive Free Trade Area (DCFTA) in January 2016 is expected to provide EU exporters with 8,800 MT of preferential access to the Ukrainian broiler meat market under a duty-free TRQ for poultry cuts and offal. The TRQ for poultry cuts and offal will become available for the first time in 2016 (see Attachment 1 at the end of this report for details). The TRQ volume will increase by 400 MT annually until it reaches its final level of 10,000 MT in 2019 all of which is expected to be utilized. Ukraine will also implement a duty-free TRQ for 10,000 MT of whole birds from the EU in 2016 although industry sources suggest EU exporters are unlikely to utilize it.

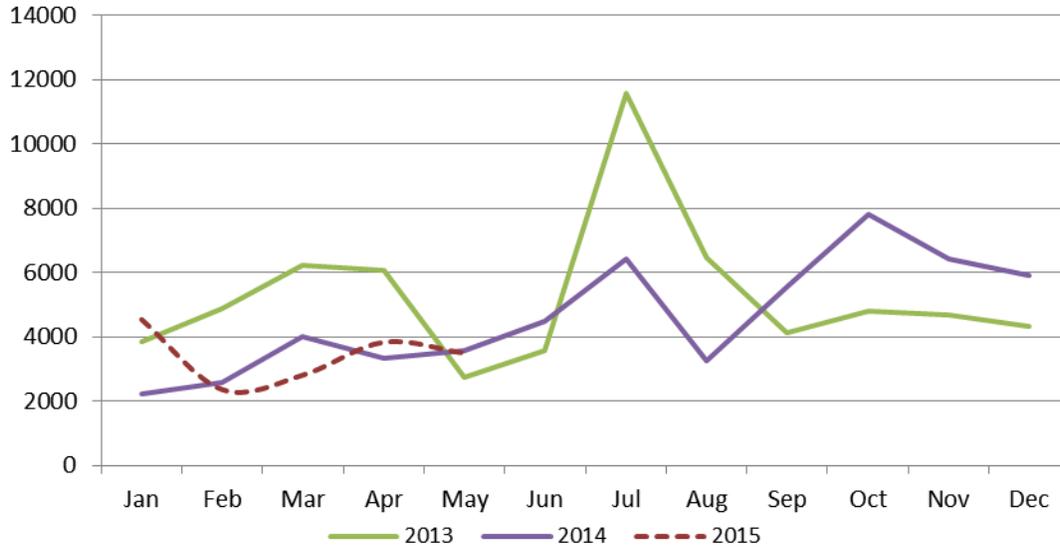
FAS Kyiv's forecast for 2015 imports is increased from 40,000 MT to 60,000 MT in this report to reflect the fact that, despite a 9 percent decline in 2015 GDP, Ukraine's imports of broiler meat were over 8 percent higher by volume for the first half of 2015 compared to the same period in 2014. The increase is likely the result of strong demand for inexpensive poultry offal (HS 02071410) as an input in the processing industry.

Ukraine's Poultry Imports, January - May, MT*

Partner Country	Quantity			% Share			% Change
	2013	2014	2015	2013	2014	2015	2015/2014
World	23725	15747	17036	100.00	100.00	100.00	8.18
Poland	1170	1697	10473	4.93	10.78	61.47	517.19
Germany	13184	6773	4120	55.57	43.01	24.18	- 39.18
United Kingdom	638	995	707	2.69	6.32	4.15	- 28.97
France	453	185	478	1.91	1.17	2.80	158.48
Hungary	3399	1309	457	14.33	8.31	2.68	- 65.06
Others	4881	4789	803	20.57	30.41	4.71	-83.23

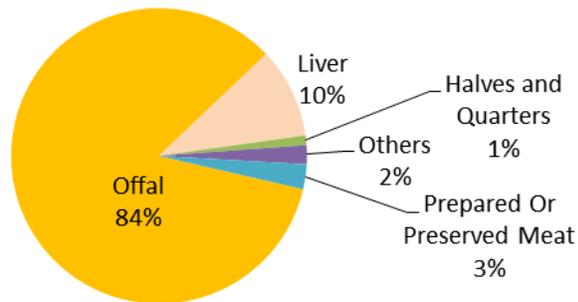
*Source: Global Trade Atlas. Note: Poultry is defined as HS 020711, 020712, 020713, 020714 and 160232

Poultry Meat Imports by Months (MT)



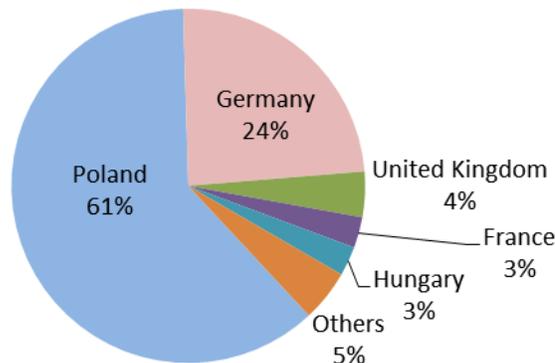
Source: State Statistic Service of Ukraine via World Trade Atlas

Chicken Meat imports in 2015, by Product (5 months)



Source: State Statistic Service of Ukraine via World Trade Atlas

Ukraine's Poultry Imports in 2015 (5 months), Percent



Source: State Statistic Service of Ukraine via World Trade Atlas

Exports: Exports of broiler meat are projected to increase to 190,000 MT in 2016. Iraq and the EU are expected to remain the major destinations for Ukrainian broiler meat absorbing up to half of all exports. In January 2016, DCFTA trade preferences for Ukrainian poultry meat entering the EU will replace existing trade preferences the EU has extended to Ukraine on a unilateral basis. The existing trade preferences unilaterally implement the preferences DCFTA would have provided to Ukraine had it been implemented as originally envisioned in 2014. Consequently, Ukrainian exporters will have access to a duty-free TRQ of 17,600 MT for poultry cuts and offal in 2016. The EU has also unilaterally made available duty free access for whole birds from Ukraine under a 20,000 MT TRQ. However, industry sources do not expect the whole bird TRQ to be fully utilized given higher costs associated with processing in the EU.

The forecast for 2015 exports of broiler meat is revised from 170,000 MT to 180,000 MT in this report. The revision reflects the 10 percent increase in exports over the January to June period in 2015 compared to the same period in 2014. Under EU unilateral trade preferences, Ukrainian exporters had preferential access to the EU broiler meat market under an EU duty-free TRQ for 16,800 MT for poultry cuts and offal in 2015. Bolstered by the TRQ, the EU overtook Iraq for the first time as Ukraine's largest broiler meat export market by value during the first half of 2015.

MHP was responsible for the vast majority of export growth as a consequence of new facilities coming online.

Ukraine's Poultry Exports, January-May, MT

Partner Country	Quantity			% Share			% Change
	2013	2014	2015	2013	2014	2015	2015/2014
World	51648	57584	62343	100.0	100.00	100.00	8.26
Iraq	4678	18697	15097	9.1	32.5	24.2	- 19.25
Kazakhstan	10657	2670	5937	20.6	4.6	9.5	122.38
Uzbekistan	3177	7397	5581	6.2	12.8	9.0	- 24.55
Netherlands	0	1871	5035	0	3.3	8.0	169.09

Moldova	3133	4852	3510	6.1	8.4	5.6	- 27.66
Georgia	1650	3438	3037	3.2	6	4.9	- 11.67
Jordan	2085	1536	2857	4.0	2.7	4.6	85.98
Germany	6	4	2623	0	0	4.2	∞
Others	23565	11892	13482	45.6	20.7	21.6	13.4

*Poultry is defined as HS 020711, 020712, 020713, 020714 and 160232; exports of chicken paws (Ukrainian HS 0207149900) to China, Vietnam and Hong Kong are excluded

Source: Global Trade Atlas

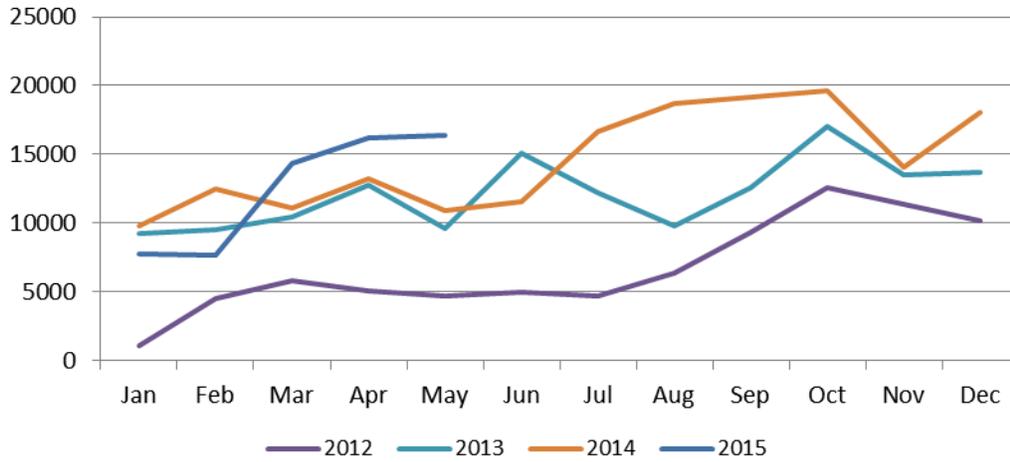
The steady expansion of Ukraine's broiler meat exports from less than 25,000 MT only five years ago has captured the attention of regional trading partners:

- On July 21, 2015, Kazakhstan suspended imports of Ukrainian poultry produced by MHP. According to statements published by the Consumer Protection Committee of the Ministry of National Economy of Kazakhstan, the decision was made after sanitary-epidemiological experts discovered pathogens on Ukrainian poultry. The restriction remains in place as of August 2015.
- On July 14, 2015, Moldova's National Food Safety Agency directed importers to temporarily cease imports of poultry meat from all countries due to multiple salmonella outbreaks in Moldova. The restrictions were lifted on August 5.

Once substantial, Ukrainian broiler meat exports to Russia are projected to remain insignificant in 2016 as they have been in 2015. Official trade statistics of both Russia and Ukraine show no exports or imports of poultry and poultry products between both countries. On August 13, 2015 the Russian Government published an announcement expanding food import restrictions (also known as "Countersanctions") on Ukraine. The restrictions are poised to into effect when Ukraine implements DCFTA provisions on January 1, 2016.

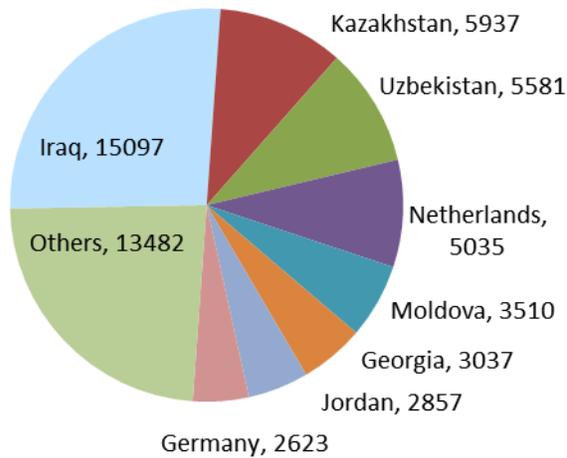
The controls in place at the administrative border between mainland Ukraine and Crimea now mirror the controls Russia applies at its undisputed borders. Movement of products into Crimea continued in 2015 despite the formal import ban introduced by the Russian Federation on Ukrainian poultry in February of 2014 (see GAIN UP1426). Rosselkhozadzor (Russia's Federal Service for Veterinary and Phytosanitary Surveillance) has approved MHP (05/28/2014) and Agromars (07/17/2015) to move poultry products into the Crimean region. In Ukrainian official statistics and in this GAIN Report trade with the occupied territories of the Autonomous Republic of Crimea is included as Ukrainian internal trade. Projected broiler meat production in Crimea is included in the broiler meat production estimate for Ukraine.

Ukraine's Monthly Poultry Exports (MT)



Source: State Statistic Service of Ukraine via World Trade Atlas

Ukraine's Exports in 2015, (5 months) MT



Source: State Statistic Service of Ukraine via World Trade Atlas

Attachment 1: DCFTA Duty-Free Tariff Rate Quotas for Poultry Products

Product	HS Code	For Ukraine’s exports to the EU MT in CWE	For EU exports to Ukraine MT in CWE
Poultry: Whole Birds and Poultry Cuts	0207.11.(30-90) 0207.12.(10-90) 0207.13.(10-20-30-50-60-99) 0207.14.(10-20-30-50-60-99) 0207.24.(10-90) 0207.25.(10-90) 0207.26.(10-20-30-50-60-70-80-99) 0207.27.(10-20-30-50-60-70-80-99) 0207.32.(15-19-51-59-90) 0207.33.(11-19-59-90) 0207.35.(11-15-21-23-25-31-41-51-53-61-63-71-79-99) 0207.36.(11-15-21-23-31-41-51-53- 61-63-79-90) 0210.99.(39) 1602.31.(11-19-30-90) 1602.32.(11-19-30-90) 1602.39.(21)	MT/year 2014=16000 1/ 2015=16800 1/ 2016=17600 2017=18400 2018=19200 2019=20000	MT/year 2014=8000 2/ 2015=8400 2/ 2016=8800 2017=9200 2018=9600 2019=10000
Poultry: Whole Birds	0207.12.(10-90)	MT/year until 2019 Annual=20,000 1/	MT/year until 2019 Annual=10,000 3/

Source: [Annex I-A](#) to Title IV of the Association Agreement.

Note: TRQs are administered on a first-come, first-served basis.

1/ Unilaterally implemented by the EU.

2/ Unimplemented by Ukraine.

3/ Unimplemented by Ukraine in 2014 and 2015