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## **Report Name:** Poultry and Products Semi-annual

**Country:** Ukraine

**Post:** Kyiv

**Report Category:** Poultry and Products

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### **Report Highlights:**

Although it initially decreased after the war began, Ukraine's chicken meat production remained stable in 2022. The production was impacted by significant cost increases predominately associated with more expensive trade logistics and a turbulent macroeconomic environment. Cheaper feeds somewhat compensated for these increases. The industry faced decreased domestic consumption due to the refugee crisis and population outflow. Decreased domestic demand allowed for the sustention of relatively high exports. Exports to the EU increased significantly due to the abolishment of the import quota and zeroing out of import tariffs. Production and exports are expected to rebound insignificantly in 2023, but the forecast is fragile due to war-related factors.

**Data included in this report is not official USDA data. Official USDA data is available at <https://apps.fas.usda.gov/psdonline/app/index.html#/app/home>**

## **Executive Summary**

Russia's full scale invasion of Ukraine, which started on February 24<sup>th</sup>, 2022, significantly changed the environment in which the Ukrainian poultry industry operates. Initial war shocks resulted in logistical problems preventing regular inputs supplies and delivery of chicken meat and products to domestic consumers and exporters. The industry discovered ways to restore broken supply chains in late spring – early summer of 2022, but those ways were significantly more expensive. As a result, most of the production drop in 2022 took place in March and April. The industry recovered in May, although various war-related production problems chased it throughout the rest of the year.

Large Ukrainian chicken meat production facilities are primarily located in central and central-western Ukraine, so they were not directly impacted by warfare. This allowed the industry to overcome the initial shocks and resume production relatively fast. The only direct loss was suffered by Ukraine's largest producer – MHP SE, which lost a big batch of product in bombed cold-storage facility. Russian attacks on Ukraine's civilian energy generation and logistics infrastructure started in the fall of 2022 but had a limited impact on the poultry sector. Most Ukrainian producers had backup power generators. However, electricity outages resulted in the cost of production increase. Ukraine's limited grain export abilities resulted in a significant drop of the cost of feed, which somewhat compensated for other negative factors.

The major refugee crisis that followed at the onset of the war resulted in a large number of internally displaced persons, immigration, and purchasing power drop. This way, in addition to the war-caused supply squeeze, the industry simultaneously faced the domestic demand squeeze. Due to the speedy production recovery, Ukrainian producers resumed exports, keeping the industry afloat. All export supplies got rerouted through Ukraine's western border as all Black Sea ports have remained blocked for poultry products since early February of 2022. This resulted in yet another cost increase absorbed by the producers.

The industry greatly benefited from the significant trade preferences in the form of canceled import quotas and zero import duties offered by some of Ukraine's trade partners, including Great Britain, the EU, and Canada. Exports to the EU market increased significantly at the expense of some former Soviet Union and African destinations that became inaccessible or too expensive to service. The Middle East retained its position as Ukraine's top export destination despite some trade drop.

Production and trade in 2023 are expected to recover slightly. All negative war-related factors have already had their impact on production. Ukrainian chicken meat producers completely re-designed their supply chains and largely restored exports. Chicken meat production remains profitable despite logistic cost increases as cheaper feed costs compensate for it. A possible re-introduction of the EU's import quotas is likely to reshape the composition of export markets rather than stop the exports. The newly opened Canadian market is unlikely to become an important destination due to restrictive supply management system regulations.

## **Production**

Industrial chicken meat production in Ukraine is concentrated in large, vertically integrated facilities. The six largest facilities are responsible for almost 90 percent of all production, while Ukraine's largest producer - MHP SE, is responsible for over 70 percent market share. In the past years, vertical integration (including feed production and chicken meat distribution) helped producers to hedge price risks and profit from the entire value-added chain. The war impacted all value-chain production links interrupting exports and resulting in some production drops.

### *Early Wartime Shocks*

Immediately after the war started, most Ukrainian producers slowed down or completely stopped production due to significant market uncertainty. The poultry market stalled for almost a month. Chicken meat export routes were limited to overland routes through the EU countries and Moldova. Significant railway and truck traffic increases resulted in substantial delivery delays. Many western border crossing points needed to be equipped for poultry meat transit and required veterinary control infrastructure on both sides. Many western insurers refused to insure Ukrainian exports or empty refrigerated containers and trucks returning to Ukraine, requiring significant deposits. Some European truck companies declined to send their trucks to Ukraine. Those who continue to operate serviced only destinations in western Ukraine. Many truck drivers also refused to drive to Ukraine. Some chicken meat product batches destined for export were sold or given away domestically. Many producers complained about broken logistics chains: the companies could not deliver their products or get needed inputs. Some inputs distributors of western companies stopped operations in Ukraine, including suppliers of veterinary drugs and feed additives. The Government of Ukraine (GoU) introduced severe foreign currency exchange restrictions, fixing the exchange rate and introducing a positive list of approved wartime imports that did not include many items necessary for poultry production.

Curfews were introduced in most regions, impacting the operation hours of chicken farms and imposing restrictions on truck movement. The destruction of some retail outlets and distribution centers led to a partial retail collapse, payment delays to producers, and empty supermarket shelves. Conscription into the Ukrainian army striped producers of a qualified labor force. Massive refugee outflow undermined the consumption base and further exaggerated the labor force outflow problem.

Initially, most of the war activities took place in the North, South, and East. Later, the Russians were pushed away from the capital and regrouped to concentrate in the Southern and Eastern parts of the country. No large poultry production facilities were directly impacted by the war as of February 2023. MHP SE was the only Ukrainian producer forced to close one of its small processing facilities due to its proximity to warfare in April. MHP SE also became the only poultry company that suffered direct damage from the Russian attacks losing a large batch of poultry in a rented cold storage facility attacked near Kyiv in late March of 2022.

### *Industry's Adjustment*

Facing unprecedented pressure, the industry was able to address most issues through intense dialog with the GoU and wide international assistance. As a result, the industry managed to re-route export supplies through the available western border routes, additional opened border crossing points, as GoU

established new SPS controls in cooperation with Ukraine's EU neighbors. Long lines of trucks at Ukraine's western border remained a significant problem for the spring-summer of 2022 but were largely resolved by the winter of 2023. The shipments through the railways also increased, together with the much-improved availability of refrigerated containers. Although these adjustments allowed for the restoration of poultry meat production, they increased production costs significantly.

Producers were granted an opportunity to retain critical employees through a system of army draft waivers. In late summer, GoU partially liberalized the foreign currency market and adjusted the fixed exchange rate to be closer to the interbank currency exchange rate. However, the Ukrainian hryvnia to U.S. dollar exchange rate continues to impose an indirect tax on the exporters. The GoU also abandoned the list of positive war-time imports allowing poultry producers to import much-needed inputs. Input supplies were restored through distributors operating from Eastern European countries. The GoU also assisted the poultry industry by providing natural gas sales at a discounted price and facilitated preferable electricity supplies during the blackouts.

Low feed prices were a significant factor that helped the Ukrainian industry to offset some of the wartime losses. The closure of Ukrainian Black Sea ports resulted in a significant export crisis for Ukrainian grain and oilseed producers. Unlike poultry producers, they could not use Ukraine's western land borders to re-route millions of tons of grains. The Black Sea Grain Initiative, agreed on in July, only allows for the limited use of three Ukrainian ports to ship grains and oilseeds. Thus domestic grain prices remained depressed.

### *The Rebound*

Despite the potentially devastating war's impact on Ukraine's poultry production, the industry exhibited an extraordinary level of resistance and managed to overcome most of the problems. After the market stalled in late February-March of 2022, production returned to growth in April and almost reached the pre-war level in May (Ukraine stopped publication of official production statistics due to wartime restrictions).

Ukraine's largest poultry producer MHP SE claimed that it never completely stopped production, including during the most dangerous February-March period. Although the company's annual report was not released by the time when this report was drafted, the company's 2022 performance is expected to be comparable to 2021. The company continues to serve domestic and export markets despite increased logistics costs.

The performance of Ukraine's five mid-sized chicken producers (PK Dniprovskyyi, Agrooven, Volodymyr-Volynsk Ptahofabryka, PK Hubyn, and Ular) differs. These second-tier companies predominately rely on domestic market sales and may concentrate on specific regions. Most of them had to decrease production significantly and temporarily suspended operations in the winter of 2022. Some smaller producers continue to experience problems due to proximity to warfare and a shrunken consumer base.

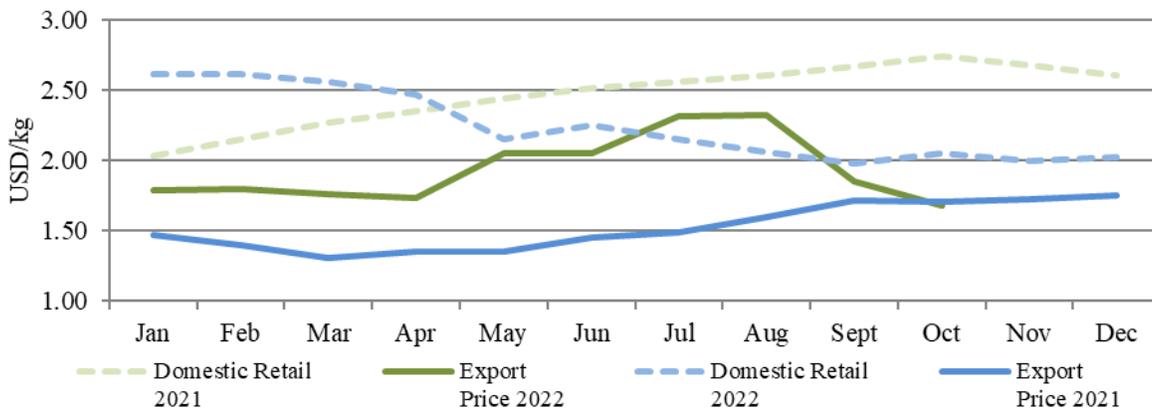
Overall, the 2022 industry production drop is expected to be less than 10 percent. The Production Supply and Distribution (PSD) table was updated to reflect the most recent unofficial production data.

Production in 2023 is expected to recover slightly. However, the industry will remain depressed by war-related economic stagnation and increased production costs.

*Prices*

Domestic poultry prices remained depressed throughout 2022 but are expected to stabilize in 2023. Russia’s invasion of Ukraine has resulted in worldwide uncertainty over grains, oilseeds, and animal proteins. However, the limited restoration of grain exports from Ukraine through the Black Sea Grain Initiative calmed the markets. Although chicken meat export prices also declined in the fall of 2022, production remains profitable.

**Figure 1. Whole Chicken Meat Domestic and Export Prices**

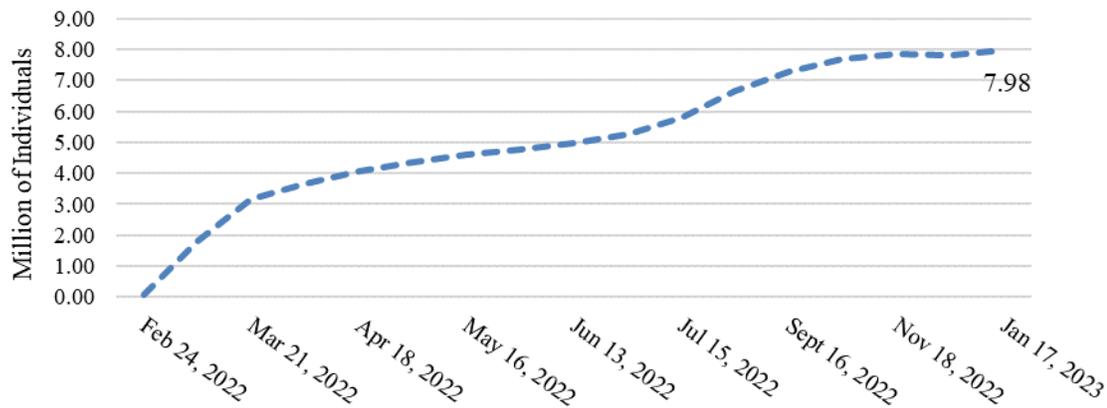


*Source: State Statistics Service based on Ministry of Economic Development and Trade Surveys; National Bank of Ukraine; Trade Data Monitor, FAS/Kyiv*

**Consumption**

Chicken consumption in Ukraine dropped significantly in 2022 but is expected to stabilize in 2023 as the population outflow levels. Ukraine’s pre-war statistics declared a population of 41.13 million. According to United Nations Refugee Agency (UNHCR) the country lost almost 20 percent of its population due to refugee migration to Europe. An unidentified number of Ukrainian citizens moved or were forcibly relocated to Russia.

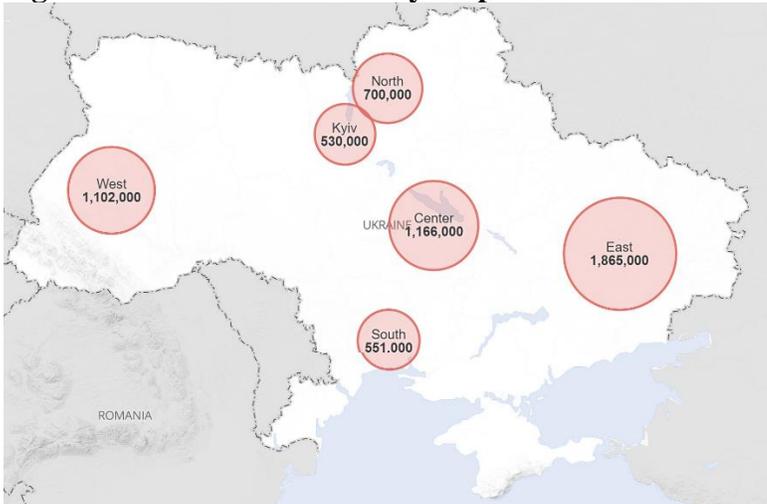
**Figure 2. Number of Refugees from Ukraine Recorded Across Europe**



Source: UN Refugee Agency (<https://data.unhcr.org/>)

Many Ukrainians lost their jobs and homes in Northern, Eastern, and Southern Ukraine. The number of internally displaced persons has reached 5.9 million as of the end of January 2023, but this number is also leveling.

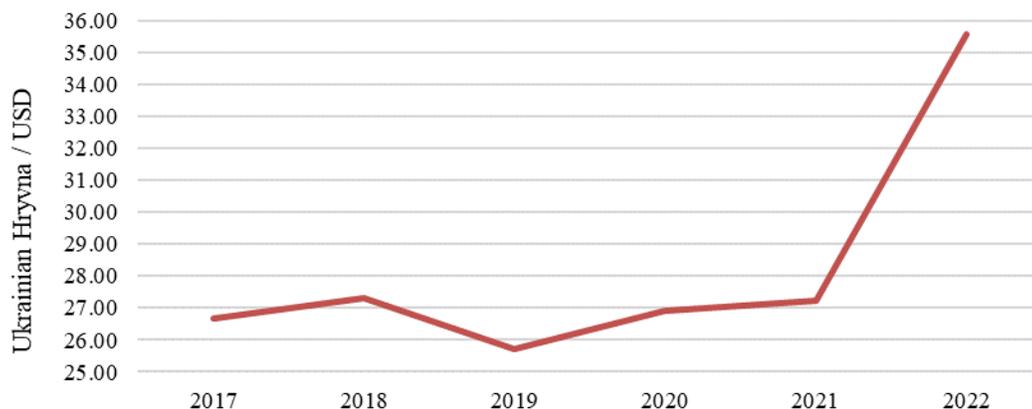
**Figure 3. Number of Internally Displaced Persons in Ukraine**



Source: UN Refugee Agency (<https://data.unhcr.org/>)

The drop in consumer income did not influence chicken meat consumption much. Poultry remained the most affordable protein. Retail prices remained low in 2022 and are not expected to grow in 2023. This facilitated consumers to switch from other red meats and fish despite the whopping disposable incomes drop. Ukraine’s economy is expected to contract by 30 percent in 2022 (preliminary data from the GoU), while consumer inflation exceeded 26 percent.

**Figure 4. Ukraine's Currency Exchange Rate**



*Source: National Bank of Ukraine, FAS Kyiv calculations based on Interbank Currency Exchange Data*

Ukrainian hryvnia-denominated disposable incomes dropped significantly following notable hryvnia depreciation. However, the overall impact on consumption was also limited due to consumer migration from other animal proteins to poultry.

The PSD table was changed to reflect 2022 production and consumption data. Although overall poultry consumption shrunk in 2022, per capita consumption grew. The 2023 consumption is likely to grow insignificantly. Similarly to the production forecast, chicken meat consumption will depend on war developments and the refugee situation.

## **Trade**

Prior to the war, Ukraine was an exporter of high-value chicken parts and whole birds to the world market and an importer of low-priced poultry offal for further processing. However, in terms of both volume and, especially, value, Ukraine's exports significantly exceeded imports. Almost all imports arrived from the EU and significantly exceeded Ukraine's respective exports by volume. This way, Ukraine maintained a visual trade balance that softened resistance to Ukraine's exports by European lobbying groups.

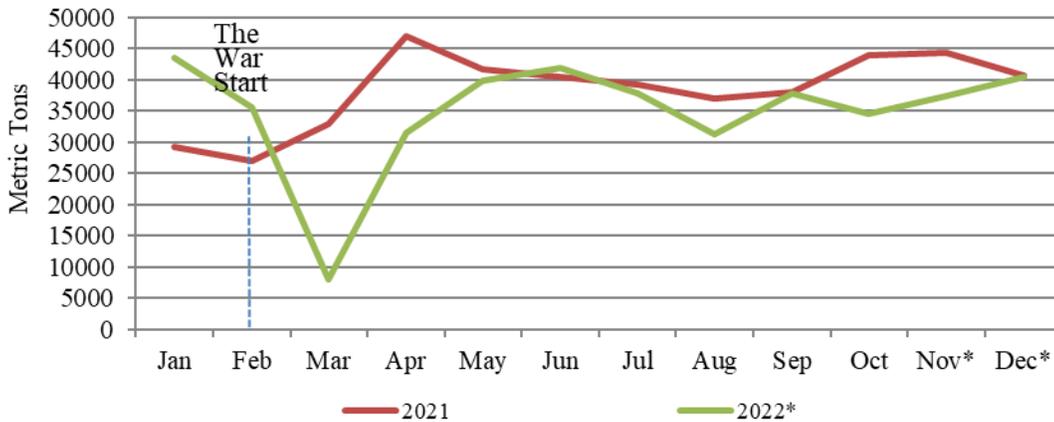
After the war began, Ukraine re-routed all its exports through the EU countries. The [EU also liberalized trade with Ukraine](#) by suspending all tariff-rate quotas and obliterating import duties. A new trade regime was implemented on June 4<sup>th</sup>, 2022 (valid for one calendar year), when Ukrainian chicken meat production was already recovering. This decision re-routed some Ukrainian exports to the EU market, but no significant trade flows re-distribution occurred.

## Exports

Due to the collapse of logistics in the early days of the war, Ukraine nearly completely stopped chicken meat exports in late February-early March. Significant batches of poultry destined for exports were distributed among the population domestically as humanitarian aid. As production recovered and new

supply routes were established, trade recovered to a pre-war level in May. Although 2022 exports are lower than 2021, most of the decrease can be attributed to the February-March trade halt.

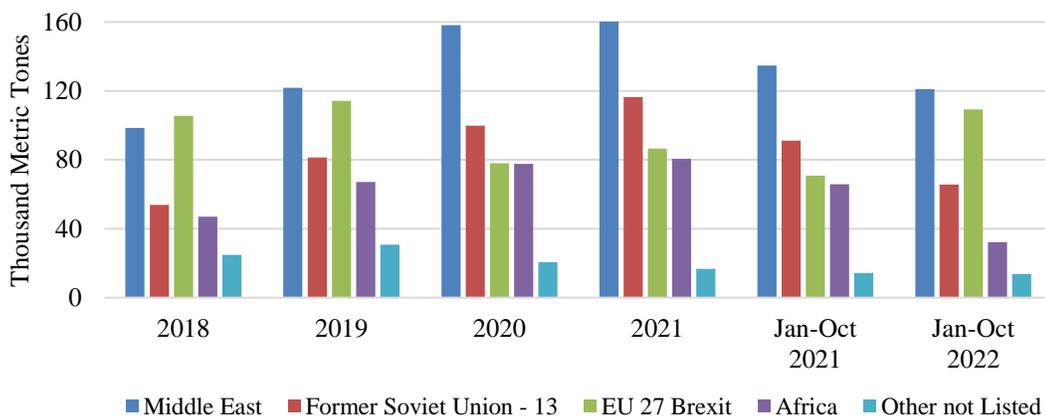
**Figure 5. Ukraine's Monthly Chicken Meat Exports**



Source: Trade Data Monitor  
 \* industry-data based forecast

Trade liberalization with the major trading partners resulted in a slight trade flow direction change. Despite significant EU export growth, the Middle Eastern market remained Ukraine’s most important export destination in 2022. Although Ukraine discovered ways to service the Central Asian markets without transshipment through Russia or Black Sea route use, high logistics cost led to a notable export drop. The same was true for most African destinations, where Ukraine’s presence decreased significantly. The export situation is not expected to change much in 2023 despite uncertainty over the EU’s trade preferences. Ukraine will likely maintain high exports to the EU and the Middle East despite significantly higher logistics costs and war risks.

**Figure 6. Ukraine Poultry Exports**

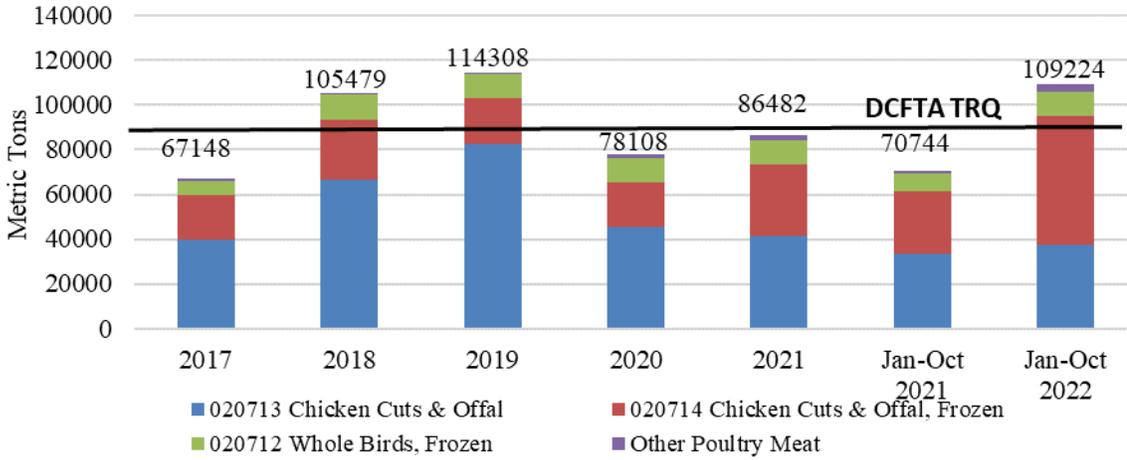


Source: Trade Data Monitor

Ukraine’s exports to the EU reached an all-time high in 2022. The composition of trade also changed as Ukraine increased the share of chicken breast exports (HS 020713/14). The share of chicken carcasses

processed within the country grew, providing Ukraine’s domestic market with much-needed chicken cuts and offal.

**Figure 7. Ukraine's Chicken Meat Exports to the EU**



Source: Trade Data Monitor, FAS/Kyiv

DCFTA TRQ -Tariff Rate Quota level according to the Deep and Comprehensive Free Trade Area Agreement between Ukraine and the EU

The volume of Ukraine chicken meat exported to the EU in 2022 exceeded poultry offal imports for the first time in history. High exports to the EU will continue through the first half of 2023 due to a favorable free trade regime. The value of the exported product was also a record-high due to increased volume and relatively high export price that exceeded the 2021 level.

**Figure 8. EU-Ukraine Trade in Poultry Products**



Source: Trade Data Monitor, FAS/Kyiv

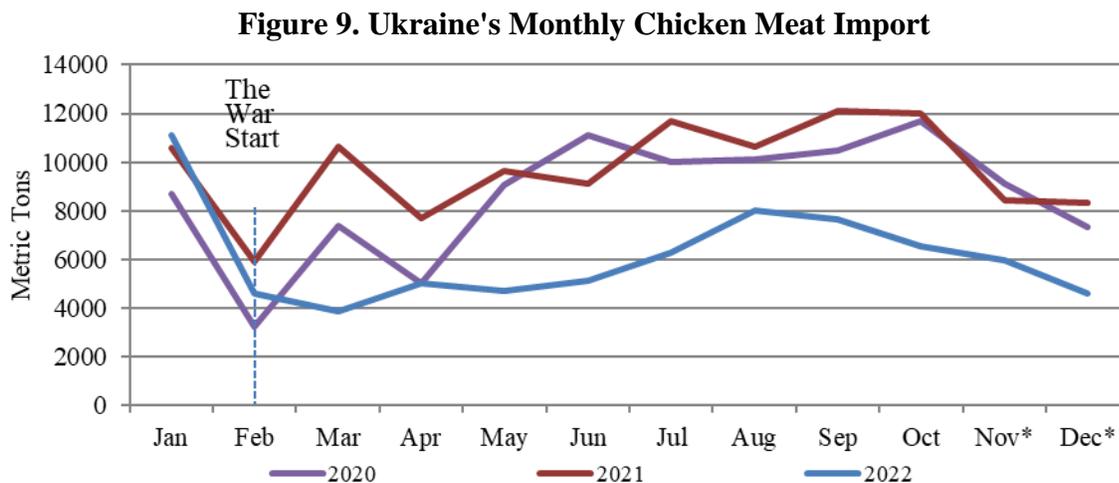
## Other Export Markets

Ukraine discovered two additional markets in 2022. Neither is expected to impact the trade flows much. Ukraine signed a Free Trade Agreement with Turkey two weeks before the war started in early February 2022. No significant chicken meat exports to Turkey are expected as Turkey's import TRQ (HS codes 0207, 1602 31, 1602 32, 1602 39) is established at 2,000 tons/year.

Similarly to Great Britain and the EU, Canada provided Ukraine with a quota-free and import-duty-free trade regime in June of 2022. Although the [bilateral trade certificate](#) was finalized much later, in November 2022, the trade is expected to be insignificant due to the restrictive supply management system used by the Canadian government.

## Imports

Before the war, Ukraine imported significant quantities of cheap chicken offal for further processing. This allowed Ukrainian producers to concentrate on premium chicken parts and whole bird exports. After the war started, chicken imports dropped and did not recover despite the gradual normalization of logistics. The abrupt devaluation of Ukrainian currency made imported chicken offal significantly more expensive than the Ukrainian product. Increased domestic chicken processing by Ukrainian producers that increased cheap offal availability also played a role.

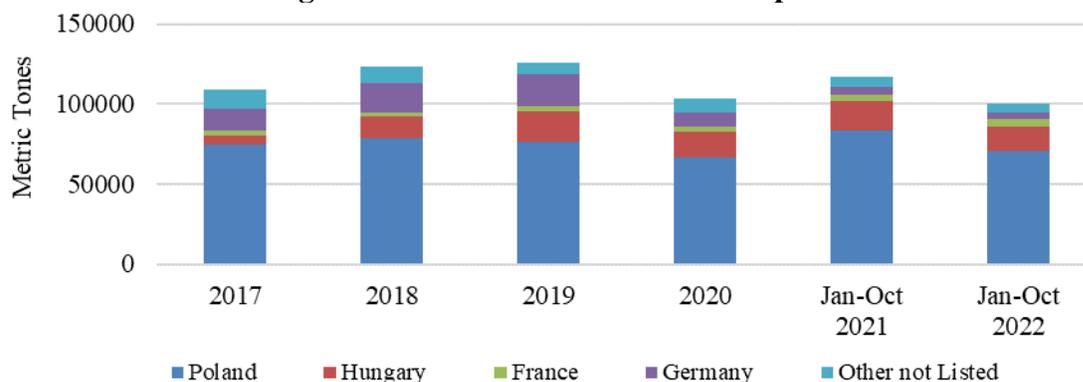


\* Preliminary data

Source: Trade Data Monitor

The Poland-led EU chicken offal suppliers dominate the Ukrainian chicken meat import market. Low prices and geographical proximity are the major competitive advantages. Ukraine is expected to continue poultry imports in 2023. The volume is expected to increase marginally following the market adjustment to the new exchange rate.

**Figure 10. Ukraine Chicken Meat Imports**



Source: Trade Data Monitor

**Table 1. Chicken Meat Production Supply and Distribution (Thousand Metric Tons)\***

Meat, Chicken Market Year Begins Ukraine	2021		2022		2023	
	Jan 2021		Jan 2022		Jan 2023	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	0	0	0	0	0	0
Production	1365	1365	1250	1280	1300	1300
Total Imports	117	117	70	73	80	80
Total Supply	1482	1482	1320	1353	1380	1380
Total Exports	458	458	420	420	450	450
Human Consumption	1024	1024	900	933	930	930
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1024	1024	900	933	930	930
Total Use	1482	1482	1320	1353	1380	1380
Ending Stocks	0	0	0	0	0	0

*\*Not Official USDA Data*

*Exports of chicken paws to China and Hong Kong and chicken meat exports to Vietnam are excluded from the export numbers.*

**Attachments:**

No Attachments