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GAIN Report

Global Agricultural Information Network

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Report Highlights:

In 2011, production of pork in Ukraine will continue to increase, although at a somewhat slower rate. The beef industry will continue its 20 year stagnation trend. Ukraine will continue to import pork and export domestically produced beef to Russia. Export volumes will remain highly dependent on the political situation in both Ukraine and Russia. Facing shrunken incomes, Ukrainian consumers will continue to consume more poultry at the expense of beef and pork. Existing technical barriers to trade are expected to continue to limit red meat imports.

Section I. Narrative

Executive Summary

Despite a slowly growing share of industrially produced pork, backyard production still dominates in Ukraine. In 2011, production of pork is expected to grow, but at a somewhat lower rate than the year before. This slowdown will follow the disposable income drop that accompanied crisis developments in the economy. Production of beef will continue to fall. The lower forecast is a result of general inefficiencies of the industry, income drop and growing feed prices. The trend for increased investments into the pork sector is expected to continue in 2011. Some investments are possible into dairy enterprises due to extremely attractive milk prices. It is unclear whether or not these investments would result in a significant beef production increase in a longer run. Imports of beef and pork remain extremely sensitive issues for the government of Ukraine. Meat imports continue to be restricted by the necessity to obtain import permits as well as by the customs service with forces high declared values on imports. The first factor acts as a quantitative restriction, while the second results in higher import duties.

Production

Swine

In 2010 production of pork grew in both industrial and backyard farms despite growing input prices. Consumers clearly signaled they wanted more pork but the lack of production efficiency in households held back any significant production growth in this segment. The industrial segment is expected to continue to grow in 2011, driven by a substantial amount of investments. There are a lot of rumors about substantial amounts of money planned to be invested into industrial production by local investors. Backyard production in 2011 will be highly dependent on the market price for pork. At this moment the market size allows for coexistence of industrial and household production, but long run perspectives of the later segment are murky.

The long-term trend for household production is expected to be downward despite possible production increases over the years. Household farms cannot compete with modern industrial farms using modern technologies and benefiting from the economy of scale. In 2011, overall industry production is forecasted to remain steady or show a slight upward trend. Import technical barriers spotted in 2010 will keep pork price at relatively high level and facilitate further production growth.

The 2010 extremely hot summer had a limited impact on production of corn and other fodder crops in Ukraine. The livestock sector is not expected to experience any shortage, but the cost of feed will move up yet another step on the ladder. Despite significant indirect grain export restrictions imposed by Ukrainian government in the middle of August, Ukrainian producers sensed the high world market price and are not going to sell grains cheaply. Nevertheless, this action gave Ukrainian swine breeders some competitive advantage over their western competitors.

Availability of cheaper electricity and gas (compared to US and Western Europe), and cheaper labor costs in rural Ukraine gave the Ukrainian industry an additional competitive advantage. Limited state direct support programs completely dried up after the 2008 financial crisis. Some limited support

continues from foregone budget revenue programs (zero percent Value Added Tax or VAT), but these supports were never a decisive factor in a swine production economy.

Cattle

Ukraine's beef industry continues to be in stagnation with little signs of recovery. The number of animals is on the decline. Limited export of beef outlined in the PSD table is a result of continuous animal slaughter and should not be interpreted as a sign of a sustainable production increase. Ukraine's beef production is concentrated predominately in the household sector, although record high milk procurement prices through the entire 2010 created some incentives for big industrial farms. Beef production remains a derivative of the dairy industry and is highly dependent on milk prices. Beef animals constitute a negligible portion of the Ukrainian livestock herd. The beef herd size is not expected to increase. The recent removal of some trade barriers between Ukraine and Russia somewhat increased incentive for further animals slaughter.

Production of beef by industrial farms remains inefficient. Ukrainian dairy farms lack capital investments; they are poorly managed and use more inputs than necessary. There are only few investment projects into dairy industry as investors prefer to target industries with quicker capital turnover and higher returns, namely poultry and swine. Lower beef prices in comparison to pork have also driven investments elsewhere.

Similar to the swine industry, state support programs aimed at production increase had limited efficiency and were curtailed in 2008.

Ukrainian households will continue to be the major producers of beef. Their share grew from 64% in 2007 to 69% in 2009. Contrary to the industrial sector, subsistence beef and pork production is expected to be stable and not subject to market fluctuations. Households view livestock husbandry as important part of the social "safety net" and pay less attention to profitability of a cow. Backyard production practices remain very primitive with very little attention paid to feeding rations, genetics or animal health issues.

Cattle, cow and swine inventories for 2009 were changed in the PSD table to reflect official changes in the Ukrainian State Statistics Committee year-end statistics. Production (pig crop and calf crop) levels have been changed to match the new GOU revisions. Beef import figures for the PSD were converted into CWE.

Consumption

A significant drop in disposable income following the 2008 crisis resulted in a noticeable drop in red meat consumption. Although this trend changed in 2009, some major consumption shifts already took place. Ukrainian consumers continued a long-term trend for an increase in poultry in their diet. Poultry slowly replaces more expensive proteins such as beef and pork. The financial crisis accelerated this shift. To some small extent, a pork consumption increase that took place in 2009 and its expected consumption growth in 2010 are observed, but neither will change the major trend.

Prices have also had a significant impact on consumption patterns especially among less affluent

consumers. In 2010, Ukrainian consumers faced sharp price increases due to import restrictions especially evident in the second half of the year. These technical barriers have prevented Ukrainian importers from purchasing significant amounts of products on the international markets. Import restrictions are expected to continue into 2011 with corresponding import volume decrease. Imports of beef will experience somewhat lower pressure due to political decision to allow more beef products into the country.

The majority of Ukrainians are not ready to pay a premium price for beef derived from beef cattle. Consumers also have a preference for fresh meat (animals slaughtered the day before sale) that they purchase in open-air markets and chilled beef sold in supermarkets. No frozen meat is usually available for sale in retail chains. The role of chains in 2011 will remain limited. Producers report multiple problems with payment delays, entry fees as well as generally unattractive contract terms and prices. A majority of meat (75-85%) will continue to be sold fresh via open-air markets.

Taste of high quality beef is not familiar to the vast majority of Ukrainians. A typical Ukrainian consumer usually chooses between rather expensive veal (male dairy calves slaughtered at 1-1.5 years of age) and other meats. Meat from older beef animals is used by the processing industry. The continuing shift to poultry is directly correlated with high red meat prices (caused by plummeting domestic supplies), lower disposable incomes, growing domestic poultry production, aggressive poultry promotion by major producers and health concerns (Ukrainian consumers consider poultry to be healthier).

Large-scale imports of high-quality beef and pork are unlikely in Ukraine in the near to medium term because of traditional consumption preferences. Importers will be supplying the processing enterprises where markets for cheap frozen beef and pork cuts exist.

Trade

After some trade liberalization that followed Ukraine's WTO accession in May of 2008, it started to revise trade rules in late 2008 which transferred into rather significant import restrictions by the middle of 2009. Although technically import tariffs remained low and no new rules were introduced by controlling authorities application of the existing rules got changed. Importers complain about restrictions imposed by Ukraine's Custom Service (CS) and by the State Committee for Veterinary Medicine of Ukraine (SCVMU). According to importers the Customs assign arbitrarily high import value for imported meat products which results in increased associated import duty and Value Added Tax. In some cases new import valuation rules double the import clearance price. In turn the SCVMU qualitatively limited imports using the import permit procedures. Due to unclear and controversial legislation the SCVMU demanded import permits for all imported products of animal origin including meat. In many cases importers were denied import permits because of some technicalities or errors in application. In some cases import permits were delayed, so importers experienced additional losses in ports due to demurrage. Combined influence of both trade barriers eventually led to a significant trade decrease in August-September of 2010. Unable to fill the gap domestic producers substantially increased meat prices.

Because of these factors Ukraine remains a relatively limited market for US meat products despite signed bilateral beef and pork protocols. Growing meat prices maintain domestic production and

overall consumption on approximately constant level, but imports are expected to shrink somewhat in 2010.

Structure of trade in beef is not expected to change much in 2011. The Russian Federation will be the major destination for Ukraine's exports. Due to import restriction imposed on the rest of the world Ukraine will remain among very few suppliers of beef to Russia. Only very limited number of Ukrainian of beef can pass rigorous inspections of Russian authorities and export to Russia. Some experts believe that there is a strong political component involved in decision-making process. Recent worm-up in bilateral relations facilitated to stabilization of beef trade although this influence is not as profound as in poultry trade.

Ukrainian meatpackers ship to lucrative Russian markets even in cases when there is unsatisfied domestic demand. This gap is filled by imported products creating a paradox situation when Ukraine serves as an importer and an exporter of beef at the same time. Direct re-exports of imported beef are not possible as Russian inspectors pay particular attention to this issue.

The market for pork can definitely consume more imported pork (mostly trimmings), but import restrictions combined with growing domestic production growth give little hope for future trade growth. US share on Ukraine's pork market is not very significant while competition with German and Polish products is fierce. Similarly to beef, imported products are destined for meat processors and are not expected to hit the retail market.

Import of all kinds of red meats is not subject to a formal export licensing. Existed system of automatic import licensing through the Ministry of Economy of Ukraine was abolished. Nevertheless each and every shipment entering the territory of Ukraine needs to be accompanied by import permit issued by SCVMU.

Section II. Statistical Tables

Ukraine Cattle PSD Table (1,000 Head*)

Animal Numbers, Cattle Ukraine	2009		2010		2011
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011
	USDA Official	New Post	USDA Official	New Post	New Post
Total Cattle Beg. Stocks	5,079	5,079	4,950	4,827	4,680
Dairy Cows Beg. Stocks	2,856	2,856	2,780	2,737	2,630
Beef Cows Beg. Stocks	54	44	50	42	40
Production (Calf Crop)	2,670	2,770	2,600	2,629	2,550
Intra-EU Imports	0	0	0	0	0
Other Imports	3	2	3	1	1
Total Imports	3	2	3	1	1
Total Supply	7,752	7,851	7,553	7,457	7,231
Intra EU Exports	0	0	0	0	0
Other Exports	2	4	2	0	1
Total Exports	2	4	2	0	1
Cow Slaughter	0	0	0	0	0
Calf Slaughter	0	0	0	0	0
Other Slaughter	2,715	2,944	2,621	2,703	2,608
Total Slaughter	2,715	2,944	2,621	2,703	2,608
Loss	85	76	80	74	72
Ending Inventories	4,950	4,827	4,850	4,680	4,550
Total Distribution	7,752	7,851	7,553	7,457	7,231
CY Imp. from U.S.	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0
Balance	0	0	0	0	0
Inventory Balance	-129	-252	-100	-147	-130
Inventory Change	-8	-8	-3	-5	-3
Cow Change	-8	-8	-3	0	0
Production Change	-8	-8	-3	-5	-3
Production to Cows	92	96	92	95	96
Trade Balance	-1	2	-1	-1	0
Slaughter to Inventory	53	58	53	56	56

**These are not USDA official numbers*

Ukraine Pork PSD Table, 1,000 CWE (1,000 Head)*

Meat, Swine Ukraine	2009		2010		2011
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011
	USDA Official	New Post	USDA Official	New Post	New Post
Slaughter (Reference)	5,416	5,791	6,550	7,180	8,010
Beginning Stocks	22	22	22	22	22
Production	490	527	570	650	730
Intra-EU Imports	0	0	0	0	0
Other Imports	186	186	200	120	110
Total Imports	186	186	200	120	110
Total Supply	698	735	792	792	862
Intra EU Exports	0	0	0	0	0
Other Exports	0	0	0	0	0
Total Exports	0	0	0	0	0
Human Dom. Consumption	676	713	770	770	840
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	676	713	770	770	840
Ending Stocks	22	22	22	22	22
Total Distribution	698	735	792	792	862
CY Imp. from U.S.	0	12	0	7	8
CY. Exp. to U.S.	0	0	0	0	0
Balance	0	0	0	0	0
Inventory Balance	0	0	0	0	0
Weights	90	91	87	91	91
Production Change	-17	-17	16	23	12
Import Change	-22	-22	-17	-35	-8
Export Change	0	0	0	0	0
Trade Balance	-186	-186	-200	-120	-110
Consumption Change	-18	-18	5	8	9
Population	45,700,395	45,700,395	45,415,596	45,700,395	45,700,395
Per Capita Consumption	15	16	17	17	18

**These are not USDA official numbers*