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Report Highlights:

Supported by high domestic poultry prices and import barriers, Ukraine's poultry industry will continue to increase output in 2011. Ukrainian producers will continue to seek export opportunities in neighboring countries with emphasis on Russia, Kazakhstan and Central Asia. However, Ukraine will still be a price market with demand for imported poultry at the lowest market segment. Ukraine is likely to remain an exporter and an importer of poultry as demonstrated in 2010.

Executive Summary

Ukraine's poultry production in 2011 will continue grow at a stable rate as industry leaders expand existing facilities and launch new long-term projects. The disposable income drop that accompanied crisis developments in the economy had limited impact on poultry consumption as it remained the cheapest protein available to Ukrainian consumers.

In 2010 the Ukrainian poultry industry continued its expansion on international markets. Due to high political sensitivity of poultry trade the industry concentrated on neighboring countries where risks are the lowest: Kazakhstan and Moldova. Far East market discovery in 2009 was somewhat unexpected while a substantial Russian market next door remains almost intact. There are indications that US poultry will face competition from Ukrainian product there in the near future as major Ukrainian poultry producers have started deliveries to Russia.

Poultry imports continue to be restricted by the necessity to obtain import permits as well as by administratively forced high customs declared values. The permits situation acts as a quantitative restriction, while the customs situation results in higher import duties. Imports of red meat in 2011 are not expected to grow thus no competition from substitute products is expected.

Section I. Narrative

Production

Production of poultry in Ukraine is on a steady growth trend. The industry moved from quick expansion of 2002-2009 to slow massive capacity development with attraction of foreign capital and use of the most advanced technologies. Boosted by import restrictions, high prices for poultry and very high prices for red meat products, the poultry industry will maintain its growth in the foreseeable future. Ukrainian domestic production of poultry continues to be highly concentrated with 2 vertically integrated companies dominating the market and controlling over 70% of production. Both major market players invested significant resources into further vertical integration. Sizable investments were made in arable land acquisitions to self supply feed crops and investments have been made in processing facilities for semi-cooked poultry products.

In 2010 the biggest Ukrainian producer – Mironovsky Hleboproduct (MHP) issued Eurobonds for \$570 additional to financing received from IBRD, International Finance Corporation (The World Bank) and Export Financing. The company is actively investing in vertical integration to minimize input price fluctuations and to secure further expansion. According to the company it is going to more than double its production capacity by 2017. A new facility in central Ukraine will add 440 thousand tons to an existing 360 thousand tons. MHP is quickly gaining market power and approaching a limit where its control over the market will become overwhelming.

A second large producer of poultry, Agromars, is planning to spend significant resources on expansion through newer and bigger production facilities and slaughterhouses. The company is privately placed, so no specific information as to development is disclosed in mass media. Financial difficulties that followed the 2008 crisis development led to some market share decrease. According to mass media

company's share on the market in 2009 went down from 19% to 16%.

Crisis developments of 2008-09 had severe negative consequences on smaller market players. Unable to expand due to scarce financial resources and unable to compete with bigger companies due to lower efficiency, many of them stopped their production for extended time periods.

The very same scarcity of financial resources hampered development of the biggest market player. Previously announced plans were postponed with new facilities coming on-line in 2017, not in 2015 as announced earlier. The industry will continue its expansion, but at a somewhat slower rate than expected. Numbers in PSD table are brought in compliance with new expectations.

The extremely hot summer of 2010 had a limited impact on production of corn and other feed crops in Ukraine. No production limitation is expected from this factor. The poultry industry is not expected to experience any shortage, but the cost of feed will move up yet another step. Despite significant impacts of grain export slowdowns and restrictions imposed by the Ukrainian government in the middle of August, Ukrainian producers took note of the high world market price and have been reluctant to sell grains cheaply. Nevertheless, this action gave Ukrainian poultry producers some competitive advantage over their western competitors.

Despite their significant political influence, poultry producers were not able to keep the same support level as before the financial crisis. Limited state direct support programs completely dried up in 2008. Some limited support continues from foregone budget revenue programs (zero percent Value Added Tax, or VAT), but these supports were never a decisive factor for the robust and quickly growing industry.

Backyard poultry production is still practiced. It is considered by the rural population to be an economic "safety net" and viewed by many rural dwellers as subsidiary and low-cost. At the same time the growth of industrial production has exerted some negative pressure on the non-industrial poultry sector. The number of chickens per household will continue a gradual reduction as in previous years.

Consumption

Ukraine is still in a deep recession, not yet recovered from the 2009 GDP decline of 15.0%. Analysts expect Ukraine's GDP may grow 3-4% in 2010, as demand for Ukraine's major exports, steel and chemicals, is recovering. Low global demand for steel and chemical products, lack of credit, and problems in the Ukrainian financial sector are still troubling. Ukraine's new government has come to power during a severe economic crisis. The GOU's management of the crisis did not bring confidence in 2010. Ukraine has one of the riskiest sovereign ratings in the world and its banking sector is still unstable.

The consumption of poultry in 2011 will continue to increase, in response to growing incomes of low-paid workers and pensioners as well as in response to the widening gap between price for poultry and red meat. In 2009 poultry managed to increase its share despite crisis developments. Poultry meat will remain the cheapest protein available and clearly the first choice for a majority of Ukrainian consumers.

Prices have also had a significant impact on consumption patterns especially among consumers with the

lowest incomes. That is the segment where US product is placed. All imported poultry is processed into cheaper bologna sausages or other processed products. 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 international markets. Import restrictions are expected to continue into 2011 with a corresponding import volume decrease. Imports of poultry will experience the highest pressure due to political weight of Ukrainian poultry producers. Competitive proteins (beef and pork) experience equal amount of pressure, thus no shift to red meat is expected due to trade restrictions.

Antidumping Investigation

On March 17th 2008 the Ukrainian competent authorities started an Antidumping (AD) investigation against US and Brazilian chicken leg quarters and chicken parts. The AD case was initiated by the major Ukrainian producer MHP and other big companies. The complainants requested an AD-duty to be imposed on US and Brazilian poultry parts that ranged from 110 to 180 percent respectively. The case was started before the presidential election campaign and was aimed to protect the interests of the industry in case of significant loss of political influence. Although a certain loss of political weight did happen as a result of elections, the major poultry producers were lucky to obtain protection of a different kind. Unable to secure budget revenues the GOU increased pressure on importers demanding higher import duties and limiting imports to increase price. These actions limited imports and released the AD case from strong political pressure. These actions are described in the trade section of the report with greater detail.

According to some experts, the position of Ukrainian poultry producers throughout the course of AD investigation was rather weak. In order to have AD sanction imposed the Complainants had to prove the fact of dumping, the damage suffered and the causal link between the two. All three integral parts of the dumping case were problematic and lacked proof, especially in view of the rapidly growing Ukrainian poultry industry.

According to Ukraine's legislation and WTO rules, the investigation should not have lasted longer than 18 months, and thus it ended on September 17th 2010. The Final Determination was published late in official media, appearing on October 9th 2010. According to the Determination the Complainants had withdrawn their claims and the Competent Authority (Interagency AD Commission) closed the case. No AD duties were imposed.

Trade

After some trade liberalization that followed Ukraine's WTO accession in May of 2008, the GOU started to revise trade rules in late 2008 which translated into rather significant import restrictions by the middle of 2009. Although technically import tariffs remained low and no new rules were officially introduced by controlling authorities, application of the existing rules got changed. Importers complain about restrictions imposed by two authorities: Ukraine's Custom Service (CS) and State Committee for Veterinary Medicine of Ukraine (SCVMU). According to importers the Customs assign arbitrarily high import value for imported poultry products which results in increased associated import duty and Value Added Tax. In some cases new import valuation rules more than doubled 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. The 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 poultry prices.

Because of these factors Ukraine remains a relatively limited market for US poultry products despite formally liberalized market and discontinued AD investigation. Growing poultry prices maintain domestic production and overall consumption on approximately constant level, but imports are expected to shrink somewhat in 2010.

Trade estimates for 2009 were revised to converge with official statistics. The trade forecast for the remaining months of 2009, as well as for 2010 remains subject to trade policy changes and possible new TBT introductions.

Import

Ukraine will remain a rather sizable market for US products in the near future. Ukraine's poultry industry is concentrated on the upper (chilled, retail) market segment domestically and is looking for profitable markets in neighboring countries. It appears that domestic producers are not able or not willing to match the price that US exporters are ready to provide for their Ukrainian customers. The competitive advantage of the US product remains in a very narrow "frozen chicken leg quarters for further processing" segment. US will not be able to compete with other domestically produced products. Partially this explains the insignificant share of Brazilian product in the Ukrainian market. This country happened to have a competitive advantage in the same products as the domestic industry.

Competition in frozen chicken parts segment will remain from EU countries which in certain time periods can supply mechanically deboned meat (MDM) and poultry parts at rock bottom prices.

An import forecast for the remaining months of 2010 and 2011 is difficult despite the official conclusion of the AD investigation against the US product. Existing TBTs and their informal introduction and operation leave a lot of flexibility for Ukrainian authorities to regulate trade. Despite the existing division of the Ukrainian market between imported US poultry and domestically produced product the domestic poultry industry will be increasing its pressure on related market segments. This will facilitate a slow erosion of US market share.

As explained, Ukraine slowly increases exports of poultry, leaving a less profitable domestic market segment for the US. Should a problem with Ukrainian poultry arise in the countries of destination (Russia, Kyrgyzstan or Kazakhstan) this product could potentially flood the Ukrainian market obliterating trade with the US completely. Given the previous trade behavior of Ukraine's trading partners this scenario could happen at any time. Trade with Ukraine is getting increasingly riskier for US poultry traders.

Exports

Facing significant production growth and limited domestic market, Ukrainian poultry producers spent a lot of time looking for potential markets elsewhere. New markets were discovered in Central Asia former Soviet Union countries, on the Far East and (recently) in Russia.

Former Soviet Union Asian countries are viewed by the industry as potentially most lucrative and stable. Similar to Ukraine's, their sanitary/veterinary systems have roots in a Soviet regulatory system. There are no language barriers for business contacts and very little political disagreements or conflicts. With most of them Ukraine had signed Free Trade Agreements (FTAs) which ensure uninterrupted trade flows. Currently these countries' markets are occupied by US products; Ukraine's expansion will pose a direct threat to US exports there.

Markets of countries like Kazakhstan may be not very stable in the long run as their poultry producers may have similar competitive advantages as Ukrainian ones: abundance of cheap grains, relatively cheap energy and labor force. An additional factor that may shake the stability of export supplies is the recently-established Custom Union. Russia, Belarus and Kazakhstan agreed to have the same trade and tariff policy. The rules of the Custom Union may spread Russia's trade restrictions to the two other member states. None of the member states is a WTO member and they are free to restrict trade any way they wish.

Markets in the Far East have greater volume and potential, but Ukrainian poultry there will face competition from other suppliers and will lose its shorter distance advantage if compared to Central Asia market. Nevertheless US poultry may meet an unexpected competition on its traditional markets rather soon.

On July 1st 2010 the Russian Federation removed its almost 5-year ban on Ukrainian poultry. Originally the ban was introduced due to an AI outbreak. Russia maintained the ban despite its membership in World Animal Health Organization and all the rules that this organization sets for High Path AI outbreaks. Many experts concluded that there was a political motivation for maintaining the ban. Upon removal of the ban, the Russian sanitary authority conducted inspection of Ukrainian poultry producers allowing exports to 2 facilities of MHP. MHP has already announced that it started exports to Russia.

Previously the industry did not consider a Russian market as a potential for further expansion. Russian – US debates over poultry are well known to Ukrainian producers and they considered the associated export risks to be too high. A recent warm-up between Ukraine and Russia may change their attitude to the Russian market.

In their quest for potential markets Ukrainian producers also explored perhaps the most problematic market in the world – the EU market. After years of inspections two major Ukraine poultry producers passed EU inspections in June of 2010. Potential EU market share happened to be dissatisfactory for the industry, but experience with EU inspection allowed them to increase safety of their products significantly which in turn helped them to discover other markets. Probably this will partially compensate the significant financial expense that Ukraine industry incurred to tune up its food safety system. Ongoing FTA negotiations between Ukraine and EU will probably not broaden Ukraine's export opportunities significantly in the short run.

Section II Statistical Tables

Broiler Meat PSD Table*

Poultry, Meat, Broiler 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
Inventory (Reference)	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0
Beginning Stocks	0	0	0	0	0
Production	620	650	650	730	800
Whole, Imports	0	0	0	0	0
Parts, Imports	181	181	180	120	80
Intra-EU Imports	0	0	0	0	0
Other Imports	0	0	0	0	0
Total Imports	181	181	180	120	80
Total Supply	801	831	830	850	880
Whole, Exports	19	19	15	35	40
Parts, Exports	0	0	0	0	0
Intra EU Exports	0	0	0	0	0
Other Exports	0	0	0	0	0
Total Exports	19	19	15	35	40
Human Consumption	782	812	815	815	840
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	782	812	815	815	840
Total Use	801	831	830	850	880
Ending Stocks	0	0	0	0	0
Total Distribution	801	831	830	850	880
CY Imp. from U.S.	150	120	140	70	60
CY Exp. to U.S.	0	0	0	0	0
Balance	0	0	0	0	0
Inventory Balance	0	0	0	0	0
Production Change	9	9	5	12	10
Import Change	-28	-28	-1	-34	-33
Export Change	138	138	-21	84	14
Trade Balance	-162	-162	-165	-85	-40
Consumption Change	-4	-4	4	0	3
Population	45,700,395	45,700,395	45,415,596	45,700,395	45,700,395
Per Capita Consumption	17	18	18	18	18

*Not Official USDA Data