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Report Highlights:

Ukraine's chicken meat production and exports are expected to decline in 2021 with a slow rebound in 2022. Slimmer production margins due to increased feed costs led to production contraction by smaller producers and bankruptcy of the second largest Ukrainian poultry manufacturer. Steadily growing poultry prices will lead to some production recovery in 2022. Ukraine will continue to import cheap offal and export premium cuts and whole birds. Accelerated imports will compensate for production decreases in 2021 and to some extent in 2022. Middle Eastern markets and former Soviet Union countries will be Ukraine's major chicken meat export destinations in 2021/22. Highly Pathogenic Avian Influenza outbreaks had a negative impact on Ukraine's chicken meat exports in the first half of 2021, but no new outbreaks have been reported since May.

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

As forecasted, chicken meat production declined in the first half of 2021. Significant feed cost increases in the second half of 2020 and early 2021 were the main reason for the contraction in production. Gradual chicken meat price increases were delayed and did not prevent this drop in production. A lot of small and mid-sized producers decreased chicken populations on their farms. Attempts to decrease production cost also resulted in lower bird weight at slaughter. Saving on production costs, with decreased meat production, led to further margins deterioration and domestic supply drop. In addition, bankruptcy of Ukraine's second largest chicken meat producer, Complex Agromars, further contributed to industry slowdown, resulting in PSD production number contraction. Other producers are expected to compensate for market player loss, but the process is expected to be slow: the industry is still expected to produce less meat in 2021 with some rebound in 2022. The feed price / chicken meat price ratio in 2021/22 MY is expected to have the biggest impact on production recovery speed.

In 2021/22, Ukraine will remain an exporter and an importer of chicken meat simultaneously. Ukraine will continue to export premium chicken parts and whole birds to lucrative Middle Eastern and European markets. Imports will concentrate in the cheapest chicken meat offal for further processing. Imports are expected to accelerate in 2021-22 to compensate for the production drop. EU exporters will continue to be responsible for the largest share of imported chicken meat. Although very strong in 2021 and 2022 to make up for decreased domestic production, imports may face pressure from Ukrainian producers, which will pay more attention to domestic sales of cheaper products in the future as domestic sale margins increase.

The Kingdom of Saudi Arabia (KSA) will be Ukraine's largest Middle Eastern export market in 2021. As direct exports to KSA increases, exports to United Arab Emirates (UAE), the regional trade hub, will decrease. Although volatile, Iraq, as well as Kuwait and Oman continue to be important markets. Middle Eastern markets are expected to dominate in Ukraine's exports in 2022. Ukraine developed and maintained stable markets in neighboring former Soviet Unions (FSU) countries. Central Asian destinations in Kazakhstan, Azerbaijan, and Kyrgyzstan remained stable in 2021 despite complicated transit through Russian territory.

Once significant, exports to EU are restricted by tight tariff rate quotas. In 2020, the EU market was Ukraine's third largest export destination after Middle Eastern markets and FSU countries. The growing importance of African markets may push the EU to the fourth place as early as the second half of 2021.

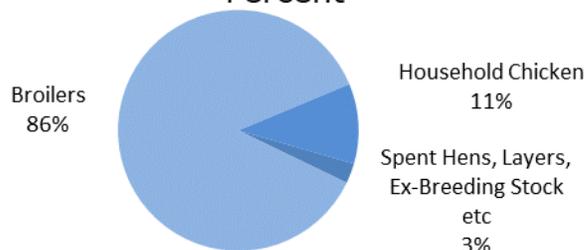
Highly Pathogenic Avian Influenza (HPAI) outbreaks had some impact on Ukraine's exports in 2021. Ukraine was unable to utilize its export quota to the EU in January-March of 2021, although access to other major markets remained almost unrestricted.

In 2020 and early 2021, the spread of COVID-19 resulted in a re-distribution of domestic chicken meat sales channels. Sales at open-air markets suffered greatly during the lockdowns followed by sales to hotels, restaurants, public schools, and other public establishments. Instead, sales through organized retail increased notably.

Production

Industrial chicken production in Ukraine is very concentrated, with one large producer controlling over 70 percent of the market. Five mid-size companies control between 1 and 6 percent of the market each with the remaining share split among a large number of very small producers. Household chicken meat production is stable and subsistent in nature. Only a small share of chicken produced is sold in open-air markets.

Chicken Meat Production in Ukraine in 2020, PWE, Percent



Source: State Statistics Service of Ukraine, FAS calculations

Household production and other non-broiler industrial chicken meat production is not reviewed in this report. All references to “poultry” or “chicken meat” below is focused entirely on industrially produced chicken.

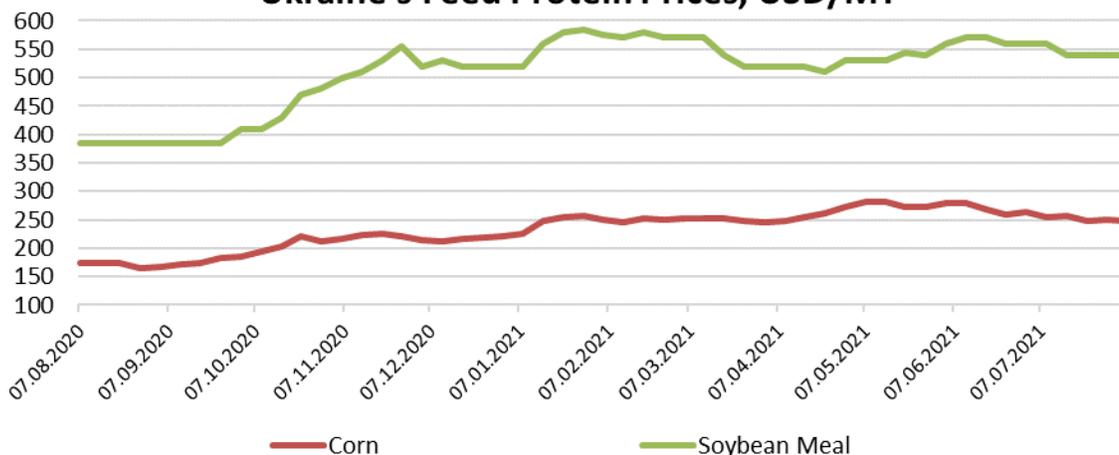
All Ukrainian industrial producers are vertically integrated, although the degree of integration varies widely. Larger companies can grow their own livestock feed ingredients, produce feed rations, produce and slaughter chickens, and distribute them through their own logistics and cold storage systems.

MHP SE is Ukraine’s largest chicken producer. After a major production expansion program with a total investment of more than USD 1 billion, MHP has maintained stable production in 2020. According to the company’s financial report, chicken meat production increased by less than one percent in the first half of 2021. The company continues to concentrate on export markets, decreasing its domestic presence, and is responsible for the overwhelming majority of Ukraine’s total chicken meat exports. Domestically it focused on semi-finished products (e.g. frozen chicken nuggets); sales to the hotel, restaurant, and institutional (HRI) segment; and sales through its own chain of specialized stores. The strategy may lead to higher domestic margins, although the potential for semi-finished products in Ukraine has proven to be limited and its own specialized retail stores are likely to face competition with well-established Ukrainian retail chains.

Ukraine’s second largest producer, Complex Agromars, stopped chicken meat production in late 2020. The company’s bankruptcy procedure was opened by a Ukrainian court in July of 2021 and is expected to take a long time. Due to turbulent production performance in 2018-20 and lack of reliable information, the company’s market share is not clear, but is likely close to 10 percent. Agromars’ business model concentrated on the lowest market segment, with open-air markets as its dominant sales channel. In recent years, the company did not export chicken meat. COVID-19-associated open markets closures during lockdowns and increased feed costs undermined the company’s fragile financial stability. The exit of this significant market player contributed to the 2021 PSD production forecast number decrease.

Ukraine’s five mid-sized chicken producers (AIG Dniprovsk, Agro-oven, Volodymyr-Volynsk Ptahofabryka, PK Hubyn, and Ular Farm) are vertically integrated, which contributed to their production and financial stability after significant feed price increase in the second half of 2020. Although some producers invested in production efficiency increases, slaughter facilities, and logistics in 2020, these investments were limited. The majority of mid-size producers had to limit production in the first half of 2021 due to slim margins. Increased costs of feed, which is responsible for over 60 percent of chicken production costs, was the main reason.

Ukraine's Feed Protein Prices, USD/MT

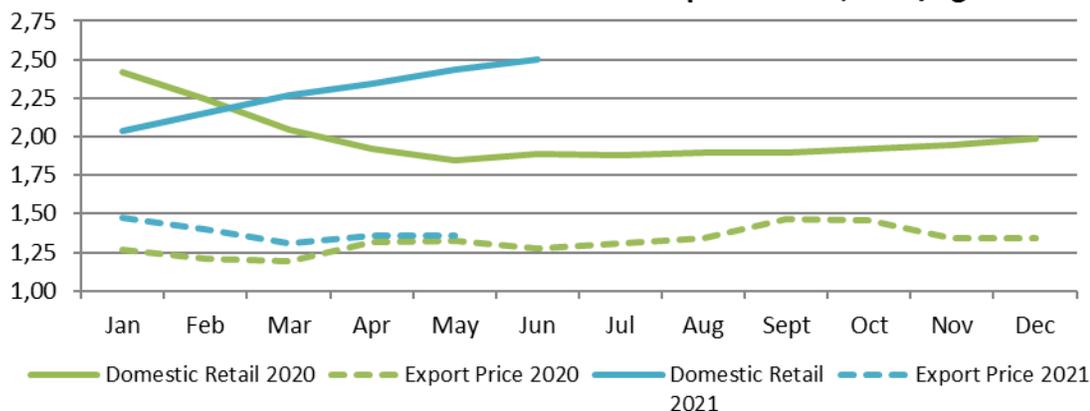


Source: APK-Inform

Many small regional producers, responsible for a combined ten percent market share, also decreased production by leaving some or all poultry houses unpopulated. Those producers may easily exit and enter business again depending on profit margins. Small producers usually operate other crop or livestock production enterprises in addition to chicken.

Chicken meat price increases came too late to compensate for margin loss in 2020; however, production is getting more attractive. Domestic chicken prices grew sturdily in the first half of 2021 with no sign of slowing down. Post’s forecast for production stabilization in the second half of 2021 and production increase in 2022 is based on this price growth.

Whole Chicken Meat Domestic and Export Prices, USD/kg



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

A growing gap between domestic and world market prices may also inspire additional imports. Since importers are not tied to production cycles, they can increase supplies faster.

Consumption

Chicken consumption changed marginally in 2020 and is expected to decrease insignificantly in 2021. No major changes of consumption patterns took place. Ukrainian small and midsize producers concentrate on domestic market, many with a regional focus. Ukraine's largest chicken meat producer, MHP SE, has a balanced approach and sells slightly under half of its output domestically. Chicken meat consumption remains dominant in the Ukrainian diet, exceeding 48 percent share of meat consumption. Disposable incomes grew in late 2020-first half of 2021 even amid COVID-19, with no sign of slowing down.

Some chicken meat consumption decreases observed in 2021 were partially caused by delivery delay during COVID-19-related lockdowns, closures of open-air markets, and product re-distribution in other sales channels. It is also partially explained by Agromars' bankruptcy and associated loss. Importers rushed in to fill the gap while Ukraine's dominant chicken meat producer expressed little interest in covering the consumption gap in the lowest market segment. Chicken meat consumption in 2022 is expected to return to 2020 levels based on increased imports and increased domestic production.

COVID-19 had a limited impact on chicken meat consumption. However, it had a rather significant impact on chicken meat distribution between sales channels in 2020. Many public establishments (hotels, restaurants, child-care facilities, and schools) decreased consumption, while retail chains rushed in with an increase in demand that compensated for losses in other channels.

In 2020-21, Ukraine experienced two major country-wide lockdowns and numerous regional lockdowns prior to introduction of the "flexible adaptive quarantine" policy. This flexible approach allows for different restrictions to be introduced based on the regional disease status and healthcare system load. The number of COVID-19 cases of Delta variant was on the rise when this report was compiled, however, it is not expected to cause another major re-distribution of chicken meat sales channels. As of August of 2021, Ukrainian poultry facilities did not stop operations because of COVID-19 outbreaks impacting their workers.

Trade

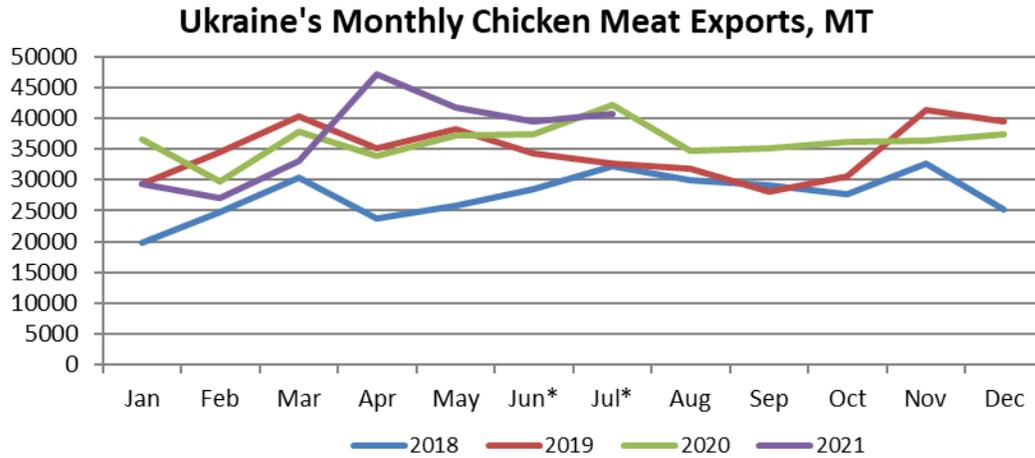
Despite all-time highs in disposable incomes, Ukraine remains a low-middle income country according to the World Bank classification. In 2021 and 2022, Ukraine will remain an exporter of expensive chicken parts and whole birds to the world market and an importer of cheap chicken meat offal for further processing. In 2020, Ukraine remained the world's 7th largest chicken meat exporter and 21st largest chicken meat importer.

Exports

Despite notable production decrease, Ukrainian producers were able to sustain exports at significant levels. MHP SE is Ukraine's largest exporter with a dominant export market share and access to lucrative EU and Middle Eastern markets that offer premium prices. The company continues to concentrate on exports despite growing margins in the domestic market.

HPAI outbreaks registered in Ukraine in late 2020 – early 2021 had a limited negative impact on export sales. Ukrainian veterinary authorities worked with their foreign counterparts in attempt to regionalize or completely remove export restrictions. KSA, Moldova, UAE, and Azerbaijan reopened their markets for Ukrainian chicken meat in late 2020 - early 2021. The EU removed import restrictions in late March, facilitating exports but making early import quota fulfillment impossible. Jordan lifted restrictions in mid-June and Japan followed suit in early August 2021.

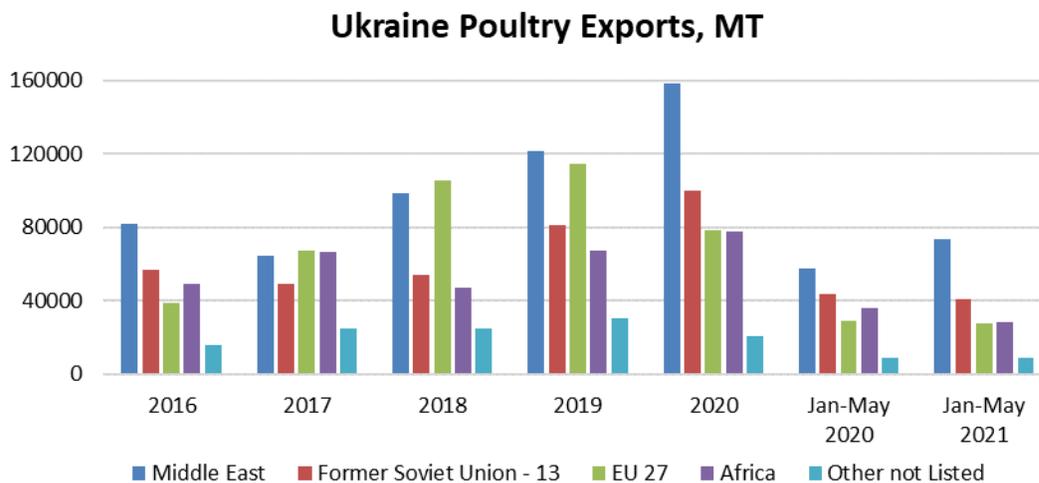
The Middle Eastern market became Ukraine’s top export destination for chicken meat followed by FSU countries, EU, and Africa. Exports of Ukrainian chicken meat to Southeast Asia remain insignificant. Access to the Chinese market for chicken meat remains closed despite long negotiations. In 2021, Ukraine negotiated poultry meat market access to the Republic of Liberia. After Brexit, Ukraine and the United Kingdom negotiated a separate trade agreement, which granted Ukraine an annual import quota of 9.5 thousand MT for chicken meat parts and 2.7 thousand MT for whole birds.



Source: Trade Data Monitor

**Sate Customs Service of Ukraine preliminary data*

Ukraine’s chicken meat production problems remain an obstacle to further export expansion. The Middle East and North Africa (MENA) region will continue to grow in importance and will dominate Ukraine’s future growth. Almost all exports remain dependent on the financial stability of one giant producer - MHP SE.

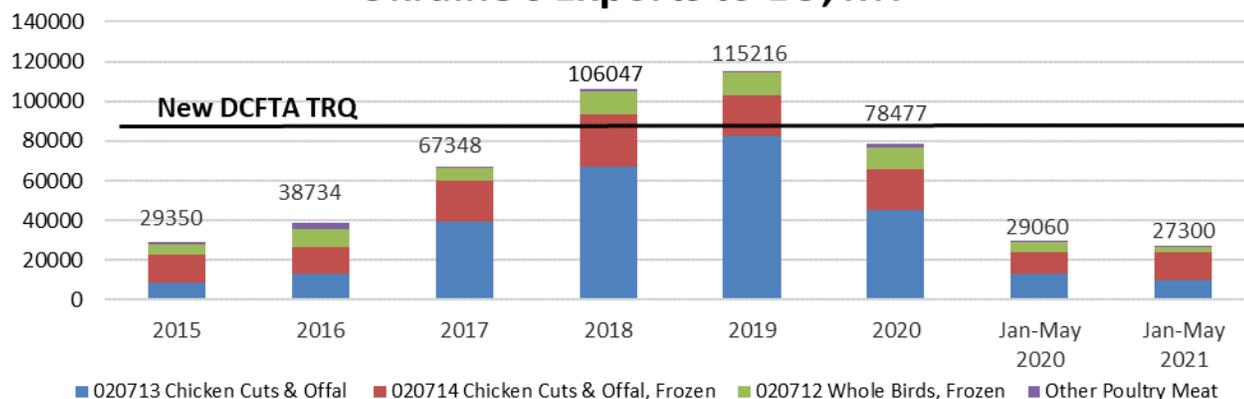


Source: Trade Data Monitor

EU market access remains limited. After Agromars bankruptcy, only two Ukrainian chicken meat producers, MHP SE (two facilities) and PK Hubyn (one facility), are [approved](#) for export to the EU. However, MHP’s two approved facilities utilize nearly the entire quota allocated to Ukraine.

In 2019, EU and Ukrainian authorities agreed on new, expanded import TRQs for Ukrainian chicken parts. The maximum import TRQ was increased by 50,000 MT to 70,000 MT. The TRQ for whole birds will remain at 20,000 MT. The new EU import TRQ structure, which ruled out over-quota imports of chicken meat cuts classified under HS 020713, was applied throughout 2020. Combined with HPAI outbreaks in 2020-21, these new import rules led to Ukraine's decreased exports to the EU market. This situation continued in 2021 due to Ukraine's inability to fulfill import quota in January and February due to the lack of HPAI regionalization until March. Some TRQ volumes will remain unclaimed, and imports will remain a bit short of its 90,000 MT size.

Ukraine's Exports to EU, MT



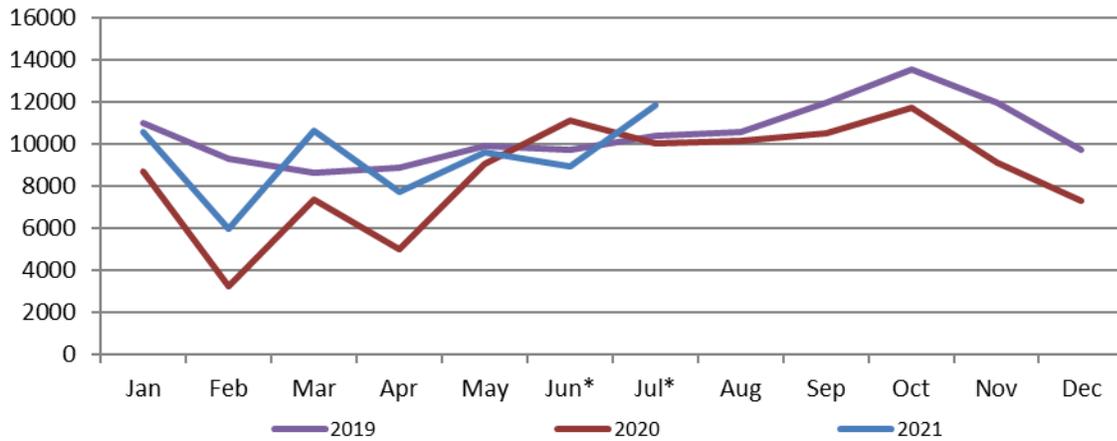
Source: Trade Data Monitor, FAS/Kyiv

North African markets are less attractive to Ukrainian producers due to generally lower prices, although their role continues to be significant. Egypt and Mauritania remain the major export destination. Exports to sub-Saharan Africa are not stable but growing over time with markets in Gabon, Republic of the Congo, Democratic Republic of the Congo, Guinea, Ghana, the Gambia, Benin, and Sierra Leone.

Imports

Imported chicken meat for further processing plays an important role in Ukraine's export expansion: premium chicken parts and whole birds exports would not be possible without domestic substitution of expensive chicken cuts with cheap offal. The majority of imported offal is mechanically deboned meat for further processing. Chicken meat production drop observed in the first half of 2021 resulted in increased demand for imported chicken meat.

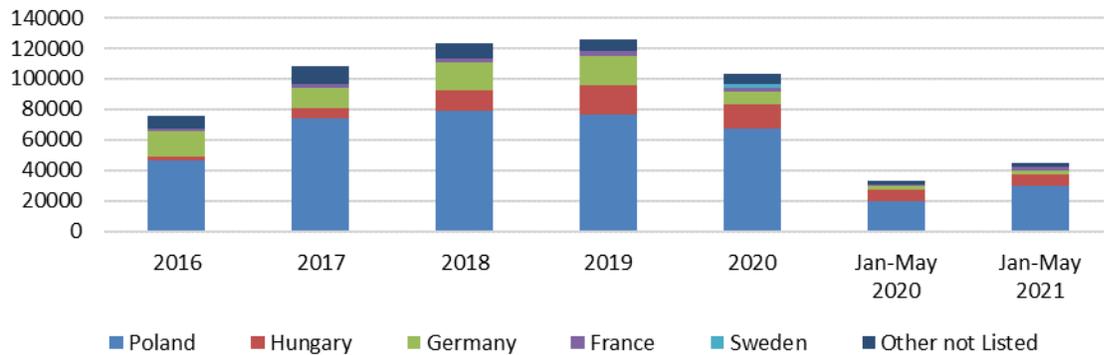
Ukraine's Monthly Chicken Meat Import, MT



Source: Trade Data Monitor
 *Sate Customs Service of Ukraine preliminary data

Ukraine’s import needs are covered almost exclusively by EU countries although limited quantity of U.S. chicken meat may arrive to Ukraine in late 2021. Imports are expected to remain strong in 2022 despite domestic production recovery.

Ukraine Chicken Meat Imports, MT



Source: Trade Data Monitor

Statistical Tables

Broiler Meat PSD Table*

Meat, Chicken	2020		2021		2022	
Market Year Begins	Jan 2020		Jan 2021		Jan 2022	
Ukraine	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks (1000 MT)	0	0	0	0	0	0
Production (1000 MT)	1423	1404	1375	1360	0	1380
Total Imports (1000 MT)	103	103	135	135	0	140
Total Supply (1000 MT)	1526	1507	1510	1495	0	1520
Total Exports (1000 MT)	428	428	400	430	0	440
Human Consumption (1000 MT)	1098	1079	1110	1065	0	1080
Other Use, Losses (1000 MT)	0	0	0	0	0	0
Total Dom. Consumption (1000 MT)	1098	1079	1110	1065	0	1080
Total Use (1000 MT)	1526	1507	1510	1495	0	1520
Ending Stocks (1000 MT)	0	0	0	0	0	0
Total Distribution (1000 MT)	1526	1507	1510	1495	0	1520

***Not Official USDA Data**

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

Attachments:

No Attachments