USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Ukraine

Dairy and Products Annual

Report

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Report Highlights:
Fluid milk production is expected to decrease in 2016-17 due to lack of foreign markets for Ukrainian dairy products. Exports of almost all processed dairy products to Russia stopped in 2014 and are not expected to recommence. Ukraine will continue to export dried dairy products and butter to utilize excess milk supply. Industry's efficiency will be improving due to increased investments in industrial milk production. Domestic demand shifted toward the cheapest products and is expected to stabilize in 2016.

Data included in this report is not official USDA Data. Official USDA data is available at http://www.fas.usda.gov/psd **Data for the Autonomous Republic of Crimea is included into the PSD tables.**

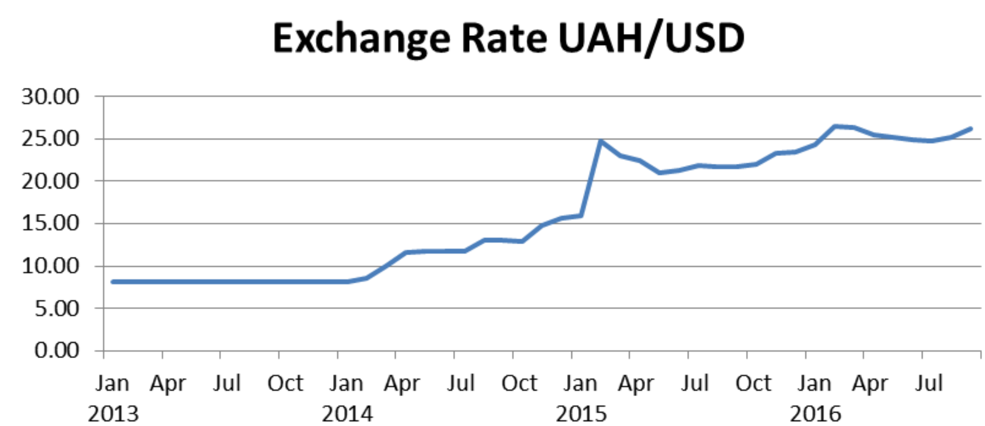
Executive Summary:
Due to lack of foreign markets, low world market prices and increased competition in the region, Ukraine's milk production is expected to drop in 2016 and 2017.

Ukrainian milk producers and processors concentrated on the domestic market and actively searched for new foreign markets for value-added dairy products. Once significant, the Russian cheese market remains closed for Ukrainian products since August 2014. Exports to smaller traditional markets in Central Asian countries were also complicated as new transit barriers had been imposed by Russia in the middle of 2016.

Unfortunately, no new export markets were discovered for Ukrainian cheese, butter or whole dairy products. Ukrainian cheese quality often needs improvement, and the type and taste of the product limits its distribution mainly to Former Soviet Union (FSU) countries.
After the Russia ban Ukrainian processors had no choice but to convert additional milk into non-fat dried milk and sell it on the world market at whatever price prevailed. Food and Agriculture Organization (FAO) experts estimate the excess milk supply for 2106 at 800 TMT. No state programs for butter or dairy product purchases were implemented in 2016 due to lack of financing.

Decreased margins from NFDM production in comparison with traditional cheese depressed fluid milk prices in 2016. Prices for industrially produced milk used for whole dairy products remained low, but attractive for producers, resulting in a fluid milk production increase. Households decreased their milk production and their share in total production. Overall milk production dropped.

Production:
The macroeconomic environment in Ukraine remained very hostile due to conflict in Eastern Ukraine and the annexation of Crimea by Russia. Political and economic turmoil led to the Russian market closure and significant currency devaluation.

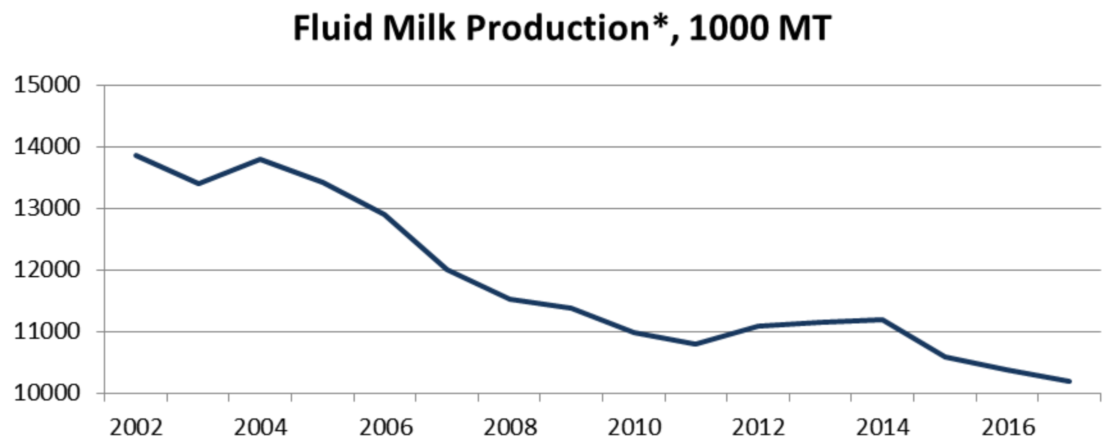


Source: National Bank of Ukraine data on Interbank Commodity Exchange, FAS/Kyiv own calculations

Despite significant negative impacts on domestic market real revenues, devaluation provided Ukrainian dairy producers with some competitive advantage on the world market in 2014-15. However as of 2016 only NFDM exports increased notably. The industry was slow in developing foreign markets for other dairy products due to inconsistent quality. The majority of milk for further processing continues to be supplied by households. In 2016 the currency devaluation impact is expected to disappear or to decrease significantly.

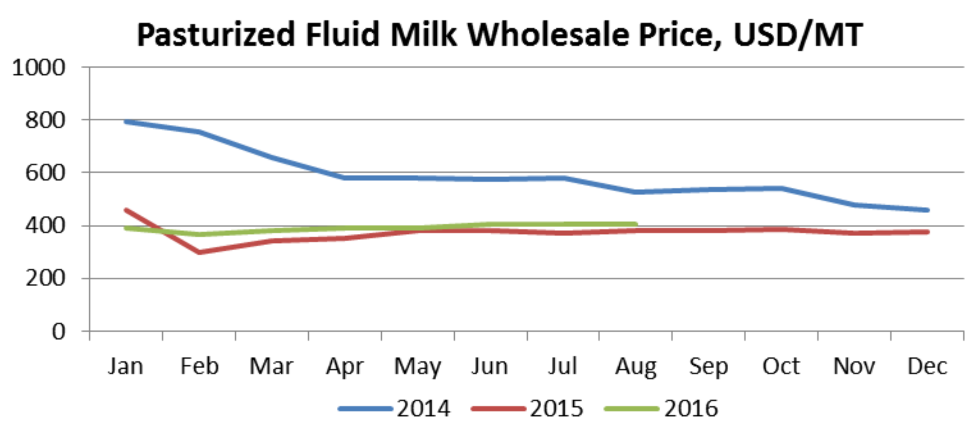
Raw Milk

Milk production in Ukraine is expected to decrease in 2016-17 due to decreased demand from the processors and export markets closures. Although on decline, fluid milk production may start to stabilize in 2017 as no new market shocks are expected.



Source: State Statistics Service of Ukraine; FAS Kyiv calculations;
**Including Crimea*

Currency devaluation brought milk prices to an all-time low in 2015. An especially strong shock was experienced by producers in February of 2015 after a short-term currency drop of 200 percent that brought real milk prices down to 9 US cents/kg for a couple of days. In 2016 devaluation continued at a much slower pace, but raw milk prices remained low and comparable to 2015 levels.



Source: Association of Dairy Producers of Ukraine, FAS/Kyiv calculations

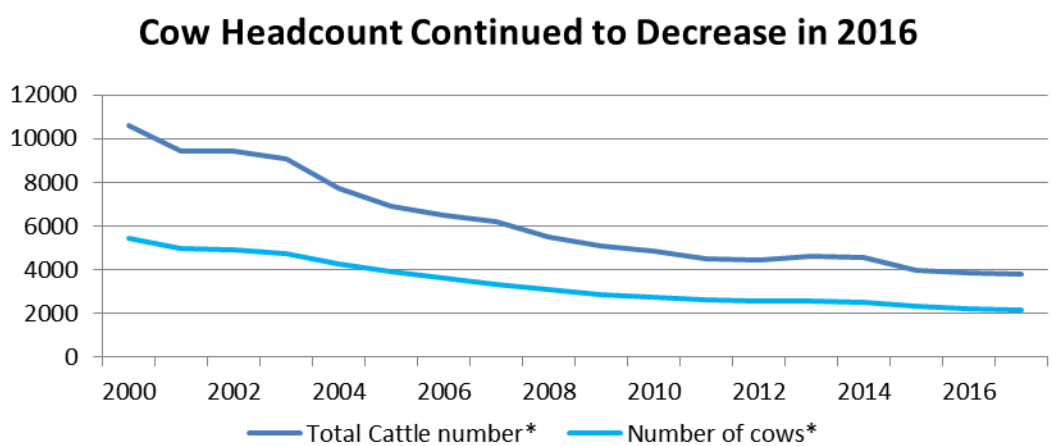
Low milk price facilitated inefficient producers' market exit. Industrial enterprises managed to increase fluid milk production, while reducing animal numbers. Household productivity declined due to decreasing cow numbers and milk yields. Due to relatively small share of industrial fluid milk production (only 26 percent in 2016) the total milk production decreased.

Dairy Production Indicators (Jan-August data)

Indicator	**Unit**	**2015**	**2016**	**Percentage**
Farms of All Types				
-Cow Number	1000 heads	2256.3	2256.3	96.4
-Milk Production	1000 MT	7366,8	7223,0	98.0
Industrial Farms				
-Cow Number	1000 heads	520,8	499,6	95.9
-Milk Production	1000 MT	1842,4	1872,0	101.6
Private Households				
-Cow Number	1000 heads	1735,5	1674,9	96.5
-Milk production	1000 MT	5524,4	5351,0	96.9

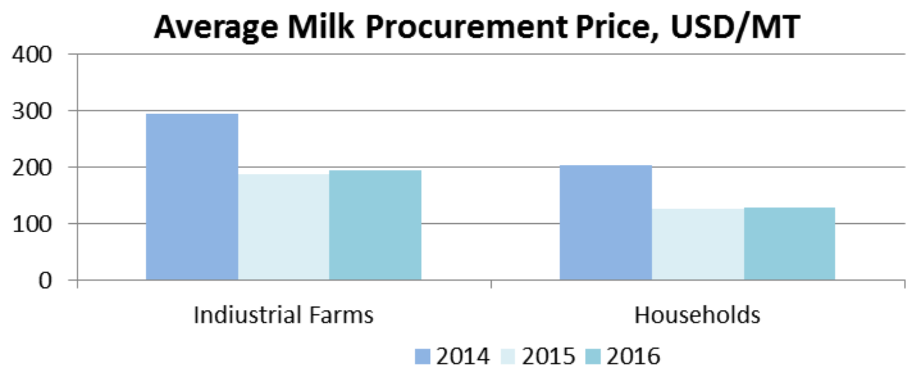
Source: State Statistics Service of Ukraine

Cow number decreases will continue a two-decade trend of animal number reduction accompanied by increased productivity. Being relatively low-efficient producers, rural households use a low-cost production model with a lot of seasonal crazing and minimum usage of expensive feeds or veterinary medicine.



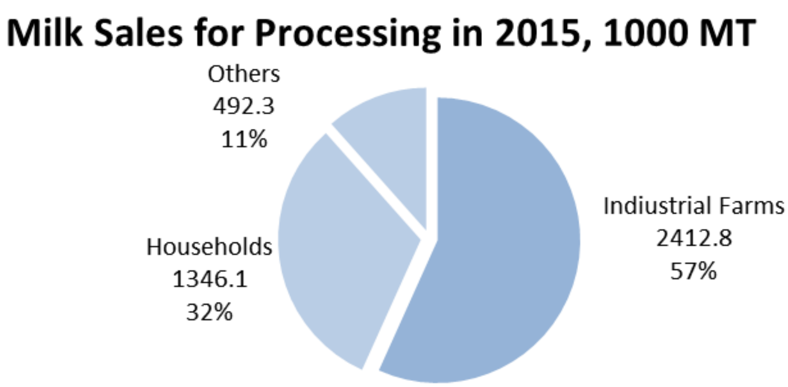
Source: State Statistics Service of Ukraine

Household milk is processed into basic, cheap dairy products and sold on open-air markets without any statistical record. Significant share of this milk is processed into soft cheese. Households were not able to benefit from the devaluation despite the demand shift into the low price/low quality category of dairy products. The quality of milk procured from households remained quite low. Bacterial contamination and veterinary problems resulted in decreased procurement prices for rural households. They get only 60-70 percent of the average price for industrially collected milk. The gap has widened significantly since 2013, when milk quality became an issue for export markets.



Source: State Statistics Service of Ukraine

Ukrainian dairy processors could not avoid household milk purchases due to insufficient quality of industrially produced milk. They are trying to improve milk quality through the multiple programs: sanitary education, milk collection points with modern chilling equipment, subsidies for veterinary and breeding services, loyalty programs, etc. Ukrainian processors are also doing their best to increase the share of industrially processed milk. In 2015 it reached 57 percent of total fluid milk purchases, in comparison to 52 percent in 2014.

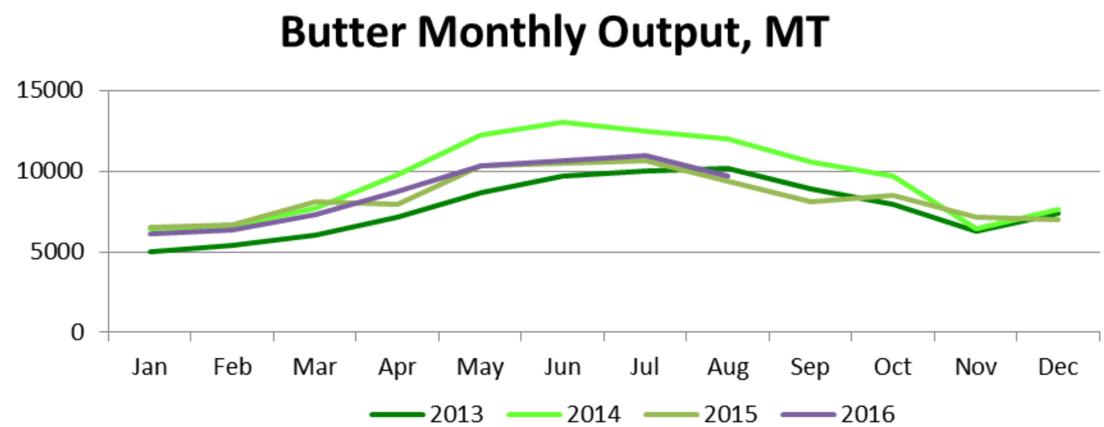


Source: State Statistics Service of Ukraine

This trend for improved quality of Ukrainian processed products is expected to continue in 2017. It is also forced by foreign markets that demand quality products in addition to the very low price that Ukrainian processors can offer.

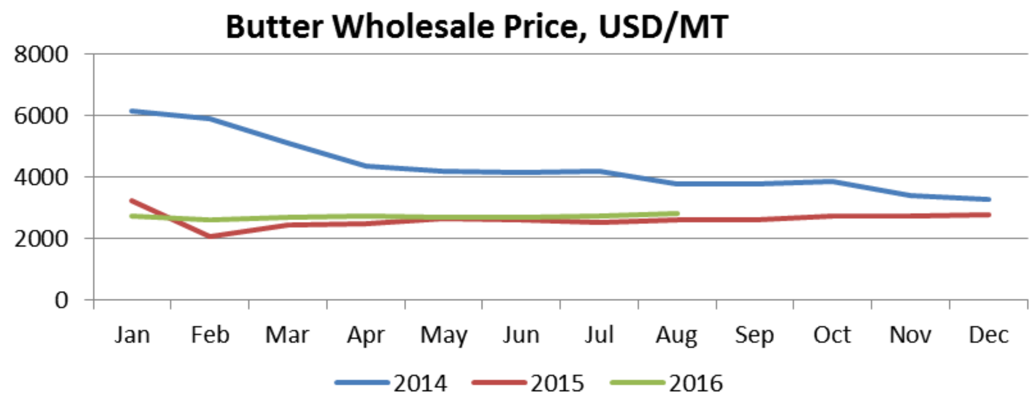
Butter

Butter production in 2015 decreased a bit as expected, but overall production level remains relatively high. Dairy processors see no alternative to cheese production, other than butter and NFDM, which will not likely see a significant production decrease. Making butter and NFDM is also one of the few ways that lower quality; household-produced milk can be used.



Source: State Statistics Service of Ukraine

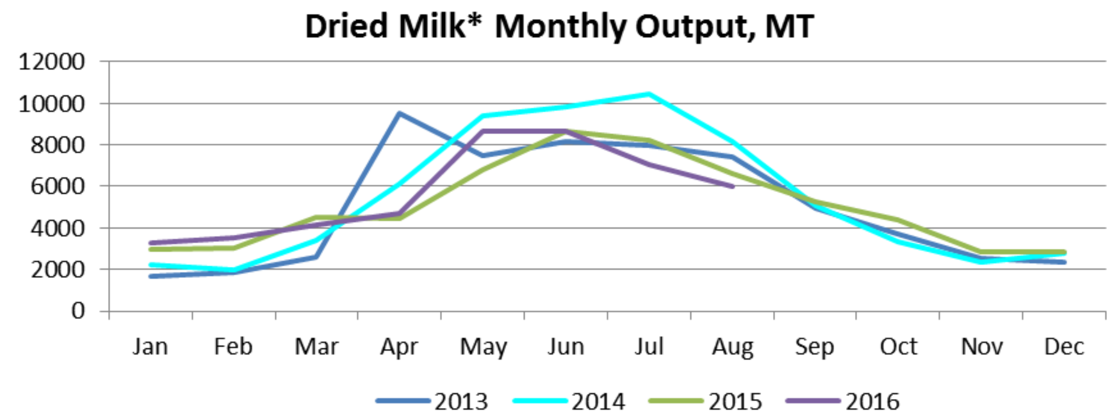
Butter price largely remains flat, following the world market trend. Insignificant price fluctuations are not expected to influence butter production by the end of 2016. Production in 2016 is expected to be just a bit higher than in 2015, driven by the same set of factors. Production in 2017 is expected to increase insignificantly following the world market stabilization and slight price rebound.



Source: State Statistics Service of Ukraine

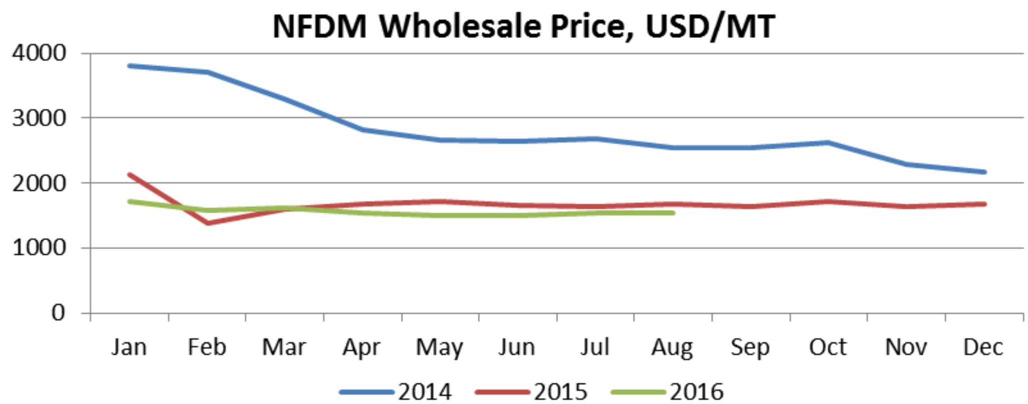
NFDM / WDM

Production of NFDM is closely tied to butter production. Russia's cheese market closure leaves producers with no choice but to switch to butter and NFDM for which world markets exist. Diversified markets in Asia and Africa where NFDM price is the major competitive advantage keep production going.



Source: State Statistics Service of Ukraine
** NFDM and WDM combine*

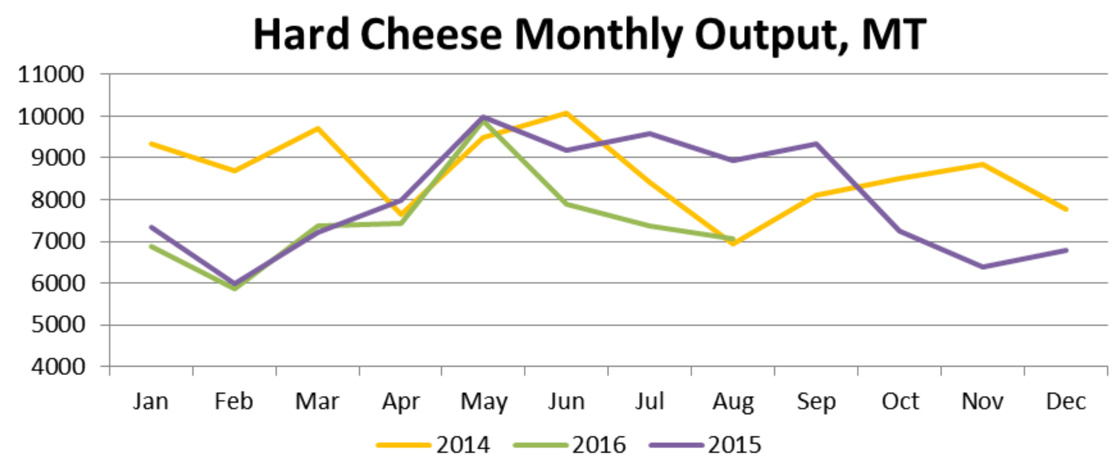
Like butter, NFDM price remains similar to 2015, but does not show any upward trends. Nevertheless production in 2016 is expected to increase insignificantly. With yet another small increase in 2017. WDM production is produced predominately for domestic market use. Its production is expected to remain flat in 2016-17.



Source: State Statistics Service of Ukraine

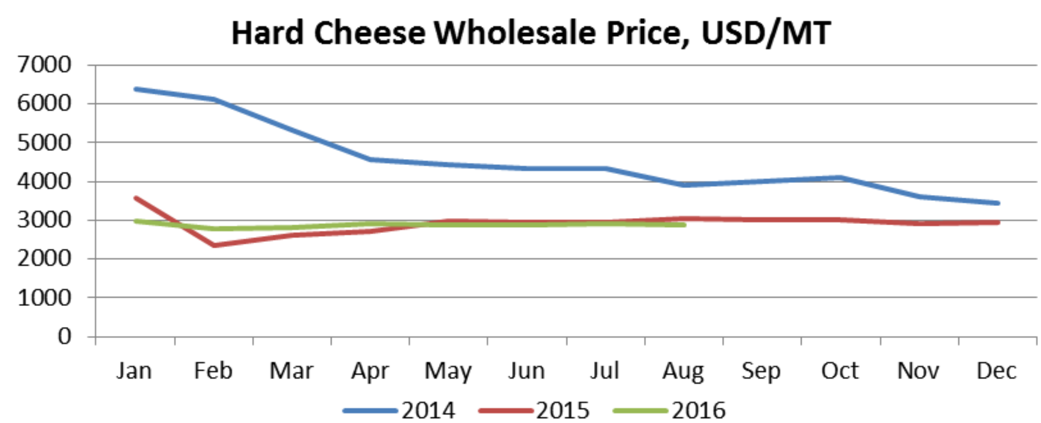
Cheese

Hard
Once very attractive for Ukrainian processors due to availability of the Russian market, the hard cheese market is now hardly one third of what it used to be. Producers concentrated on the domestic market and few remaining traditional markets. Being relatively high value added products, domestic cheese consumption suffered from the economic crisis developments of 2013-15. Domestic consumers were not able to sustain the same consumption levels and cheese production continued to decline.



Source: State Statistics Service of Ukraine

Weak demand leaves no chance for hard cheese price increases, similar to other processed dairy products; domestic hard cheese prices remained flat and not very different from the 2015 level.



Source: State Statistics Service of Ukraine

Soft and Melted

The PSD table contains production of both hard and soft cheese. Soft and melted cheeses are significantly cheaper and their production rebounded in 2016. Those other cheeses' combined influence was strong enough to offset the hard cheese decline.

Historic Cheese Production in Ukraine

Product Name	Production Code	2011	2012	2013	2014	2015
Fresh Cheese	10.51.40.30	75.3	78.6	82.8	74.3	67.2
Hard cheese	10.51.40.50	162.7	144.7	140.4	104.1	96.1
Melted Cheese	10.51.40.70	15.9	21.2	23.4	24.6	26.5
Total Cheese Production	**n/a**	**253.9**	**244.5**	**246.7**	**203.1**	**189.7**

Source: State Statistics Service of Ukraine

Consumption:

Consumption was negatively impacted by the political and economic crisis that Ukraine entered in early 2014. After significant economic downturn, Ukraine's GDP is expected to grow 1.5 percent in 2016 and 2.5 in 2017. Inflation estimates are expected to be close to 13 percent in 2016 and 8.5% in 2017.

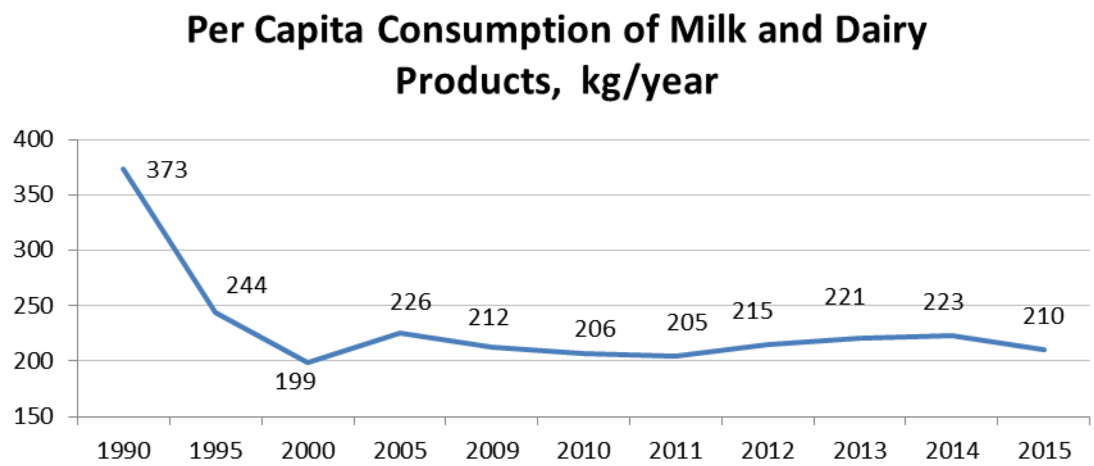
Ukrainian consumers cut consumption of almost every single food product in 2015. For many product categories consumption decreases were very significant. However, it must be noted that official statistics does not include consumption in Russia annexed Crimea (1.9 million people) and some Eastern regions of Ukraine. Partially the drop can be explained by these developments. The rest of consumption contraction was caused by decreases in disposable income. Many Ukrainian retail chains reported a 30 percent contraction in turnover compared to 2013.

Annual Foodstuffs Sales in Retail Trade (1000 Tones)

	2011	**2012**	**2013**	**2014**	**2015**
Meat and products	480	527	621	489	454*
Butter	32	36	38	35	31*
Vegetable oil	138	147	144	139	111*
Hard and soft cheese	75*	93	97	86	81
Eggs, million	2601	2698	2817	2566	2113*
Sugar	156	166	208	212	191
Confectionary (including ice-cream)	320	345	355	341	288*
Tea	11	12	12	11	9*
Bread and products (in wheat flour equivalent)	834	837	841	811	716*
Potato	106*	178	179	142	130
Vegetables (fresh)	327	444	461	387	323*
Fruits and berries and nuts	363	443	439	355	292*

Source: State Statistics Service of Ukraine, FAS/Kyiv calculations
** - indicates five years lowest number*

Dairy products remain a staple food in Ukraine and consumption suffers the least during economic turmoil. However, the consumption structure changed considerably in 2015. A significant share of low-income consumers stopped buying processed dairy products in official stores, switching to basic traditional dairy products from open-air markets. This includes soft cottage cheese to replace hard cheese, sour cream and fluid milk. Overall consumption of dairy products decreased in 2015 (by 6 percent) for the first time since 2011.



Source: *State Statistics Service of Ukraine*

Trade:

Significant currency devaluation in 2014-2015, and the Russian cheese market closure in 2014, had a significant impact on trade. Once non-competitive Ukrainian NFDM found new foreign markets, cheese exports decreased significantly, Ukrainian processors intensified their search for new markets demanding higher quality and cheaper milk from domestic producers.

EU has partially opened its dairy market for Ukrainian dairy products under the Deep and Comprehensive Free Trade Agreement (part of the Association Agreement). The European Commission published the decision on the inclusion of selected Ukrainian milk and dairy companies into the official list of authorized exporters to the EU in late 2015. Ten Ukrainian facilities got cleared on January 10, 2016. According to the European Commission's Third Country Establishments List published on August 17, 2016, another 4 companies got approved. The list of Ukrainian establishments (13 dairy processors and 1 cold storage facility) includes producers of butter, NFDM, milk, cheese, fluid milk and whole dairy products. The approved facilities list is available under the following link.
So far, Ukrainian companies have conducted only test shipments to the EU. Market development is going to take some time as Ukrainian traditional products are very different from those demanded by EU consumers.
Another attempt to open new export markets was made in Asia. Late September 2015 the Government of Ukraine had announced that 18 Ukrainian suppliers were approved for exports to the world's largest dairy importer - China. The approved facilities list is available under the following link.
Dairy exports to Russia in 2016 will be limited to ice cream as other dairy products were banned on the Russian market, either since August of 2015 or January 2016. All former Ukraine-Russia FTA benefits have been canceled.
Russia introduced additional transit barriers impacting Ukraine's exports to Central Asian countries. After the Russian market loss, Kazakhstan, Turkmenistan, and Uzbekistan remained the major traditional Former Soviet Union (FSU) for Ukrainian dairy products. Ukraine's shipments to these countries would have to go through Belorussia with special seals, permits and tracking devices. Dairy processors shipping their dried milk products to Central Asia around Russia found this route to be almost 200 USD/MT more expensive (a 65-percent transshipment cost increase) and significantly more time consuming.

Ukrainian exports now go into two groups of countries: Former Soviet Union countries that import predominately cheese, butter and whole dairy products, and importers of Ukrainian dried milk from Asia and Africa.

Ukraine's Major Export Destinations for Dairy Products (HS 04, 21, 17, 35), MT

Partner Country	Calendar Year					Year To Date		
	2011	2012	2013	2014	2015	07/2015	07/2016	% Change
World	171985	156808	144769	120525	130552	74119	71172	-3.98
Moldova	12922	13034	14518	13351	15310	9226	8498	-7.89
Kazakhstan	19811	12297	10704	16633	11314	4878	10387	112.93
Georgia	3269	3170	4367	5915	8659	4350	4539	4.34
Turkmenistan	3794	7006	7799	8903	7917	4217	5966	41.48
Bangladesh	2000	925	250	3450	6521	4352	2205	-49.34
Azerbaijan	6020	5821	5682	3944	6370	2962	2126	-28.22
Egypt	2939	2221	496	1891	6272	4178	2066	-50.55
Uzbekistan	1579	1567	3109	2540	6084	3912	930	-76.24
Russia	81519	72869	72482	23763	4970	1621	1621	0.04
Pakistan	1164	1118	987	2059	4970	3629	3569	-1.65
Others	36969	36775	24371	38074	52163	30790	29260	N/A

Source: Global Trade Atlas

Hard Cheese

Exports of cheese kept declining in both 2015-16 as access to the major markets either disappeared (Russia) or became complicated (Central Asia and other FSU countries). No markets were found to replace Russia as a major consumer of Ukrainian cheese. Imports of hard cheese from Poland for the middle income market segment, and Germany, Netherlands and Italy for upper income consumers dropped to 4,000 MT in 2015. In 2016, Poland remained the major exporter with almost 50 percent market share as the hard cheese market started to recover.

Ukraine's Major Export Destinations for Cheese*, MT

Partner Country	Calendar Year					Year To Date		
	2011	2012	2013	2014	2015	07/2015	07/2016	% Change
World	77075	64243	57528	18306	9260	3128	3104	-0.78
Kazakhstan	6667	6392	5997	3333	3445	1748	1449	-17.09
Russia	68079	56103	49861	11716	2747	0	0	-35.53
Moldova	1440	1342	1214	1136	1626	735	904	22.9
Azerbaijan	172	193	219	279	506	209	111	-47.06
Uzbekistan	56	0	3	21	221	137	53	-61.63
Iran	0	0	0	0	135	0	0	n/a
Turkmenistan	17	38	62	45	98	58	40	-31.79
United States	96	114	48	44	97	41	37	-9.58
Others	544	59	122	1731	383	198	508	n/a

Source: Global Trade Atlas
**Only Hard Cheese (HS 040620, 040630, 040640, 040690)*

NFDM

Export of NFDM remains diversified with over 84 percent of sales distributed among 20 destination markets. The low quality of Ukrainian milk pushes it into price-sensitive markets mostly in Asia and North Africa. Exports of NFDM in 2016-17 are expected to stay high due to lack of foreign markets for other processed dairy products.

Ukraine's Major Export Destinations for NFDM*, MT

Partner Country	Calendar Year					Year To Date		
	2011	2012	2013	2014	2015	07/2015	07/2016	% Change
World	22274	26241	12402	27542	34499	20181	21934	8.69
Bangladesh	1325	725	100	3425	5771	3752	2205	-41.24
Kazakhstan	1857	1482	500	5940	3677	1451	6326	336.12
Georgia	921	466	1209	2105	3598	1807	1123	-37.89
Nigeria	625	1000	740	1715	2665	1240	100	-91.94
Egypt	1450	700	75	931	2355	1361	770	-43.48
Pakistan	50	0	0	641	2054	1300	1006	-22.62
Syria	1025	1550	225	975	1836	920	592	-35.65
Armenia	820	505	340	1328	1728	629	1450	130.73
Afghanistan	100	15	0	75	1720	1220	125	-89.75
Others	14101	19798	9212	10409	9095	6500	8239	26.75

Source: Global Trade Atlas
**HS040210*

Butter

Following the Butter and NFDM production increase Ukraine had no choice but to increase butter exports. No domestic market exists for this additional supply. New markets in Turkey, Morocco and Egypt were discovered. After some decline in 2016, exports of butter are expected to stabilize in 2017.

Ukraine's Major Export Destinations for Butter, MT

Partner Country	Calendar Year					Year To Date		
	2011	2012	2013	2014	2015	07/2015	07/2016	% Change
World	1172	477	3245	5279	10417	6022	4260	-29.27
Morocco	0	0	0	0	2309	1808	893	-50.61
Azerbaijan	158	159	207	143	1831	561	44	-92.12
Egypt	0	0	0	0	1728	1267	531	-58.09
Turkey	0	0	0	22	955	508	425	-16.28
Russia	595	61	2330	1460	58	0	0	8.61
Others	416	256	706	3653	3533	1877	2365	26.00

Source: Global Trade Atlas
**HS 040510, 040590*

Statistical Tables

Fluid Milk PSD Table*

Dairy, Milk, Fluid Ukraine	2015		2016		2017
	Market Year Begin: Jan 2015		Market Year Begin: Jan 2016		Begin: Jan 2017
	USDA Official	New Post	USDA Official	New Post	New Post
Cows In Milk	2,323	2,322	2,200	2,226	2,150
Cows Milk Production	10,700	10,584	10,100	10,380	10,200
Other Milk Production	250	280	230	300	320
Total Production	10,950	10,864	10,330	10,680	10,520
Other Imports	6	0	2	0	0
Total Imports	6	0	2	0	0
Total Supply	10,956	10,864	10,332	10,680	10,520
Other Exports	9	9	8	10	11
Total Exports	9	9	8	10	11
Fluid Use Dom. Consum.	5,497	5,385	5,124	5,190	5,009
Factory Use Consum.	4,450	4,350	4,250	4,380	4,450
Feed Use Dom. Consum.	1,000	1,120	950	1,100	1,050
Total Dom. Consumption	10,947	10,855	10,324	10,670	10,509
Total Distribution	10,956	10,864	10,332	10,680	10,520

**These are not official USDA numbers*
Crimea numbers are included

Hard and Soft Cheese PSD Table*

Dairy, Cheese Ukraine	2015		2016		2017
	Market Year Begin: Jan 2015		Market Year Begin: Jan 2016		Begin: Jan 2017
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	8	8	7	8	12
Production	100	194	100	200	206
Other Imports	5	5	8	7	7
Total Imports	5	5	8	7	7
Total Supply	113	207	115	215	225
Other Exports	11	11	8	11	11
Total Exports	11	11	8	11	11
Human Dom. Consumption	95	188	97	192	204
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	95	188	97	192	204
Total Use	106	199	105	203	215
Ending Stocks	7	8	10	12	10
Total Distribution	113	207	115	215	225

*These are not official USDA numbers
Crimea numbers are included

Butter PSD Table*

Dairy, Butter Ukraine	2015	2016	2017
	Market Year	Market Year	Begin:

	Begin: Jan 2015		Begin: Jan 2016		Jan 2017
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	9	9	10	6	7
Production	105	103	100	105	106
Other Imports	0	0	1	1	1
Total Imports	0	0	1	1	1
Total Supply	114	112	111	112	114
Other Exports	8	10	7	8	8
Total Exports	8	10	7	8	8
Domestic Consumption	96	96	95	97	98
Total Use	104	106	102	105	106
Ending Stocks	10	6	9	7	8
Total Distribution	114	112	111	112	114

*These are not official USDA numbers
Crimea numbers are included

Nonfat Dry Milk PSD Table*

Dairy, Milk, Nonfat Dry Ukraine	2015		2016		2017
	Market Year Begin: Jan 2015		Market Year Begin: Jan 2016		Market Year Begin: Jan 2017
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	4	4	7	3	3
Production	50	54	45	56	58
Other Imports	0	0	1	0	0
Total Imports	0	0	1	0	0
Total Supply	54	58	53	59	61
Other Exports	30	35	30	37	38
Total Exports	30	35	30	37	38
Human Dom. Consumption	17	20	21	19	20
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	17	20	21	19	20
Total Use	47	55	51	56	58
Ending Stocks	7	3	2	3	3
Total Distribution	54	58	53	59	61

**These are not official USDA numbers*
Crimea numbers are included

Dry Whole Milk Powder PSD Table*

Dairy, Dry Whole Milk Powder	2015	2016	2017

Ukraine	**Market Year Begin: Jan 2015**		**Market Year Begin: Jan 2016**		**Market Year Begin: Jan 2017**
	USDA Official	**New Post**	**USDA Official**	**New Post**	**New Post**
Beginning Stocks	0	0	0	0	0
Production	12	9	12	9	9
Other Imports	0	0	0	0	0
Total Imports	0	0	0	0	0
Total Supply	12	9	12	9	9
Other Exports	2	2	2	2	2
Total Exports	2	2	2	2	2
Human Dom. Consumption	10	7	10	7	7
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	10	7	10	7	7
Total Use	12	9	12	9	9
Ending Stocks	0	0	0	0	0
Total Distribution	12	9	12	9	9

**These are not official USDA numbers*
Crimea numbers are included