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Ukraine

Dairy and Products Annual

Annual

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Report Highlights:
Fluid milk production in Ukraine is expected to decline slightly in 2018 and 2019. Overall efficiency of the dairy sector is improving: dairy yields are growing while the number of dairy cows is decreasing. Households remain the major milk suppliers, providing raw materials for commodity dairy products. However, the share of household production as an input to industrial processing is on the decline. In 2017-2018, Ukraine was able to increase butter exports significantly, reacting to a high world market price. In the domestic market, exported butter is replaced with lower cost spreads and margarine. Exports of skimmed milk remain flat, depressed by the low world price. Domestic demand for dairy products is slowly recovering as a result of disposable income growth.

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 wherever possible.**

Executive Summary:

After the major economic and political shock of recent years, Ukrainian milk producers and processors have stabilized production, discovering new export markets for dairy products. Butter became a new significant export product in 2017, making Ukraine the world's 12th largest exporter by volume. An increase in world demand for butter helped Ukraine utilize excessive milk supplies that became available following the closure of the Russian market to Ukrainian exports. However, a decline in the world price for butter will result in a slight decline in Ukrainian butter production in 2018-2019.

Fluid milk production contracted marginally in 2018, and the Ukrainian dairy industry is expected to continue this slight downward trend in 2019. Simultaneously, larger industrial farms are increasing their efficiency with investments in farm upgrades and reconstruction, improved feeding techniques, and management and veterinary programs. Industrial farms are benefiting from higher procurement prices as their products are utilized for premium whole dairy products and cheese. Households continue to supply milk for lower quality commodity products (butter and dried milk) and non-food casein. However, the majority of household milk is utilized for traditional basic homemade dairy products (soft cheese and sour cream).

As a result of increased efficiency, the number of dairy animals will continue to decline, while per-head milk yield will continue to grow. Although households remain responsible for over half of all milk produced, effective industrial milk producers will continue to grow in the near future.

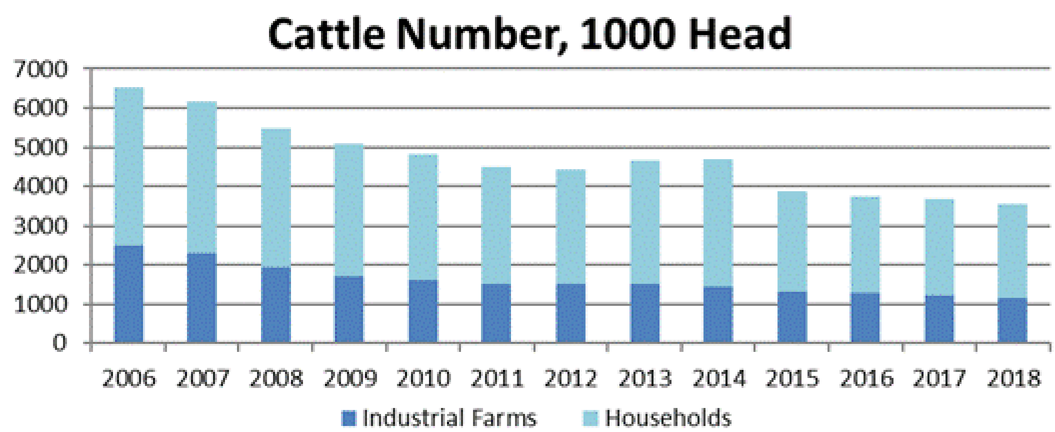
PSD Note: Ukraine resumed publication of separate Skim Dried Milk and Whole Dried Milk production indicators. New PSD tables contain official 2017 production data and 2018-2019 forecasts based on new monthly data.

Production:

Stabilization of the political and economic situation in Ukraine has had a positive impact on the production of raw milk and dairy products. Exchange rate and inflation risks are modest and do not interfere with short-term business planning. However, the industrial component of the sector has developed slowly as foreign investments have remained limited. A relatively strong three percent GDP growth recorded in 2018 resulted in substantial disposable income growth and consequent demand for dairy products.

Raw Milk

In Ukraine, 73 percent of raw milk is produced on household plots and 27 percent on industrial farms. Milk production in both sub-sectors is expected to contract in 2018-2019, despite favorable procurement prices. General production inefficiency remains high. Households practice a low-cost, low-productivity approach. Milk is produced for family needs and for sale in neighboring urban centers in either fluid milk form or processed into traditional basic dairy products such as soft cottage cheese, sour cream and cream. Household efficiency has very limited opportunities for improvement. Some dairy processors have invested resources into the organization of milk collection centers, the provision of sanitary education for villagers, and the purchase of chilling and small milking equipment. Those programs have had limited success.

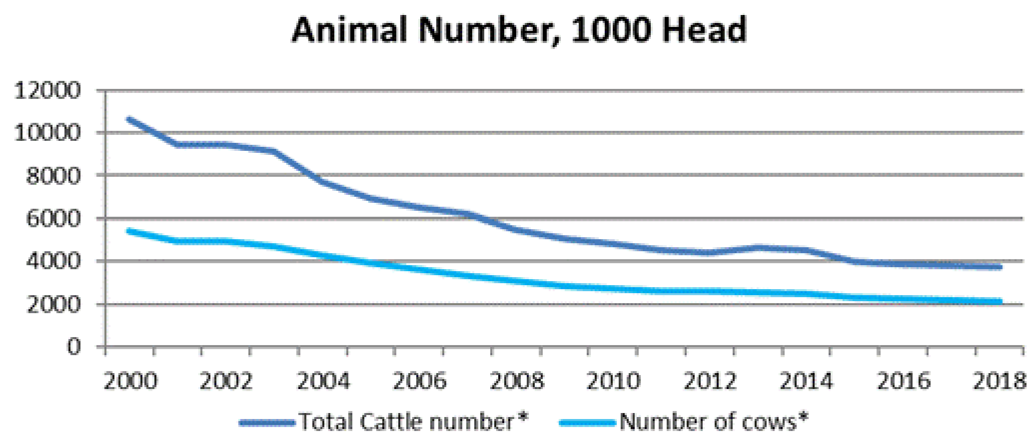


Source: State Statistics Service of Ukraine

Industrial production in Ukraine is rather small and has different sub-trends. The majority of the currently existing dairy farms are quite inefficient and function as subsidiaries of larger agricultural companies oriented toward crop production. Livestock farms are utilized more as social employment projects rather than profitable businesses. Milk production is viewed as high risk and technologically more difficult. Fluid milk is sold domestically and is subject to periodic economic shocks and sporadic price fluctuations.

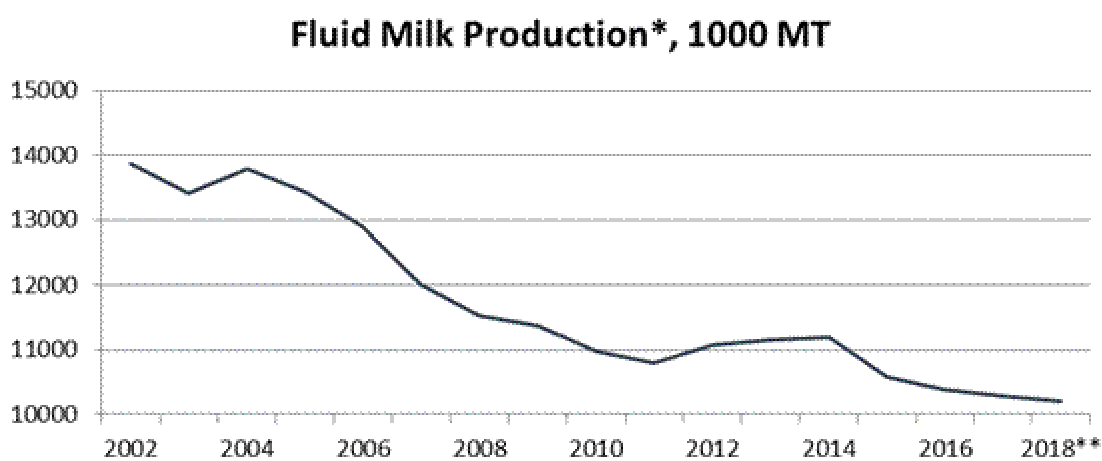
A second group of agricultural companies treats milk production as a potentially profitable business. Significant investments were made into technology, animal genetics, farm management and product marketing. The number of such farms is growing, driven by internal cross-investment from the company's own crop enterprises. A lack of modern technologies and knowledge remain the major limiting factors for an increase in the number of such facilities.

The number of animals is expected to decrease in both the industrial and the household sectors. However, overall efficiency of the dairy industry is growing as less efficient farms continue to leave the business.



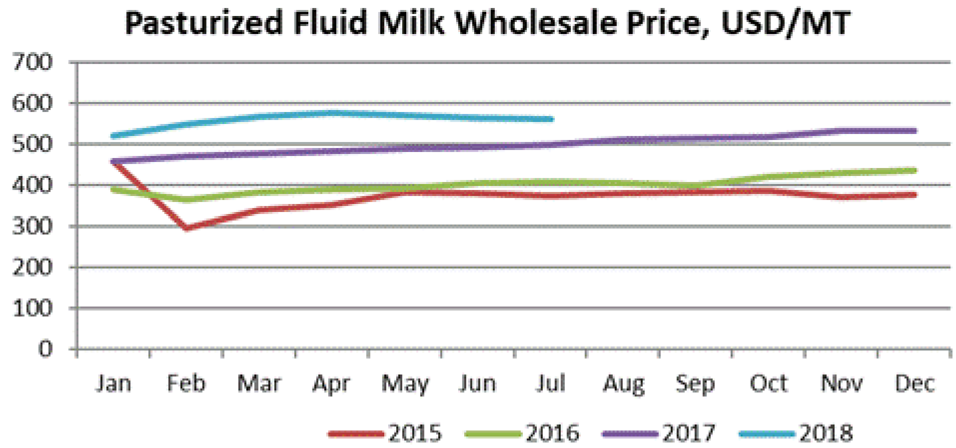
Source: State Statistics Service of Ukraine

Despite the decrease in the number of animals, industrial farms continue to increase raw milk production. However, this insignificant increase is offset by the decline in the number of animals and the drop in yield in household production. As a result, milk production has declined. Post has updated fluid milk production numbers to reflect Ukrainian official statics for 2017 and the January-July 2018 production trend. The production factors listed above are expected to continue their slight downward pressure on milk production in 2019.



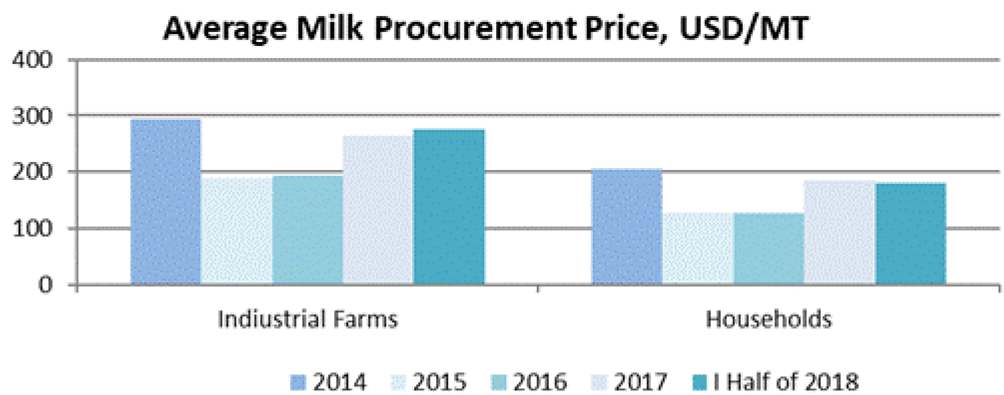
Source: State Statistics Service of Ukraine; FAS Kyiv calculations;
**Including Crimea*
*** Forecast*

Although somewhat offset by higher feed prices, fluid milk prices remained relatively high. Processor-reported pasteurized milk prices grew gradually starting in October 2016, after two years of low prices. Efficient milk producers were able to expand production, reflecting increased world market demand.



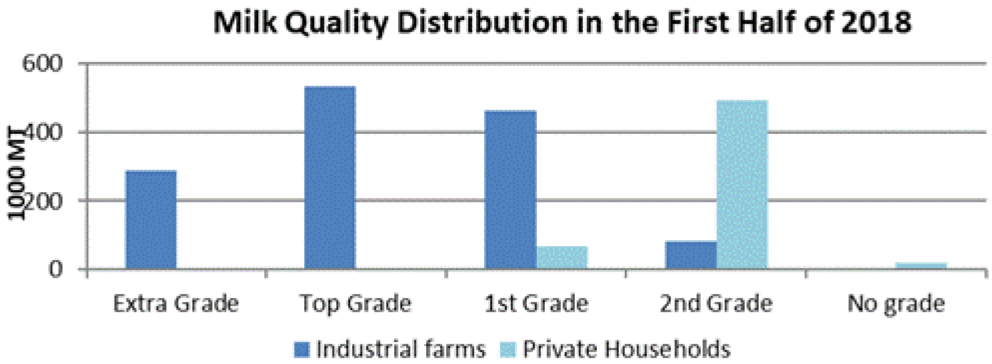
Source: Ukraine's State Statistics Service, FAS/Kyiv calculations

Although the 2018 raw milk price remains above the 2017 raw milk price, processors continue to discriminate against household producers. Industrial farms are able to collect more than a fifty percent premium for their milk.



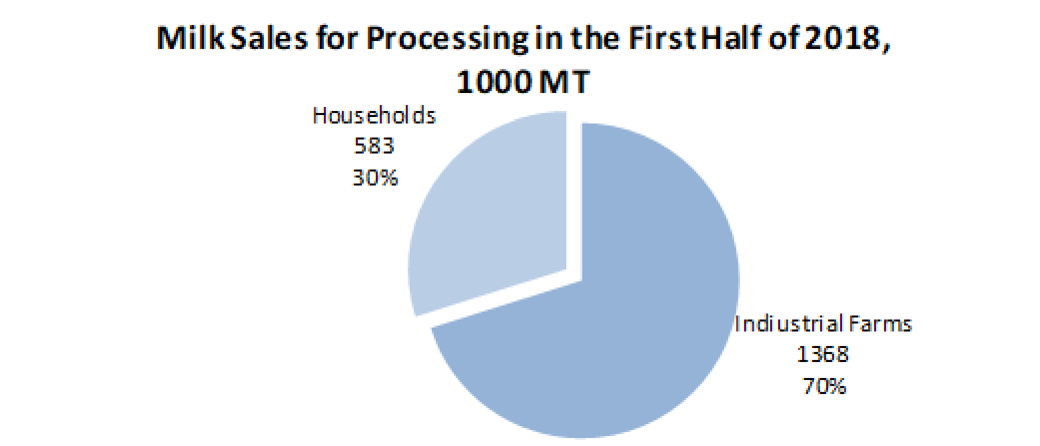
Source: Ukraine's State Statistics Service, FAS/Kyiv calculations

Household producers are not able to supply milk of appropriate quality to satisfy processor needs. Thus, dairy processors rely on milk from industrial farms to produce whole milk products and higher quality cheese.



Source: Ukraine's State Statistics Service, FAS/Kyiv calculations

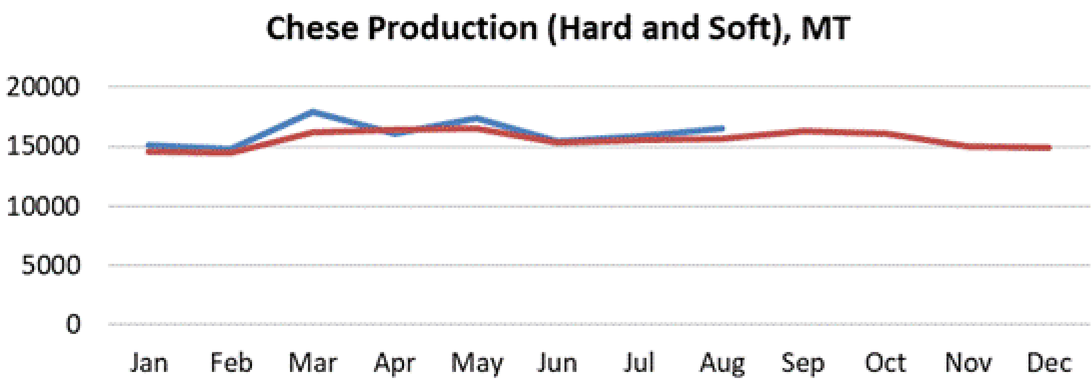
Although households are responsible for over 70 percent of milk production, their share of use in processing is 30 percent and declining. Processors use of milk produced in industrial facilities has been increasing by 7-10 percent annually. In particular, export market demands for quality dairy products significantly restricts the ability to use household-produced milk as an input.



Source: State Statistics Service of Ukraine

<u>Cheese</u>

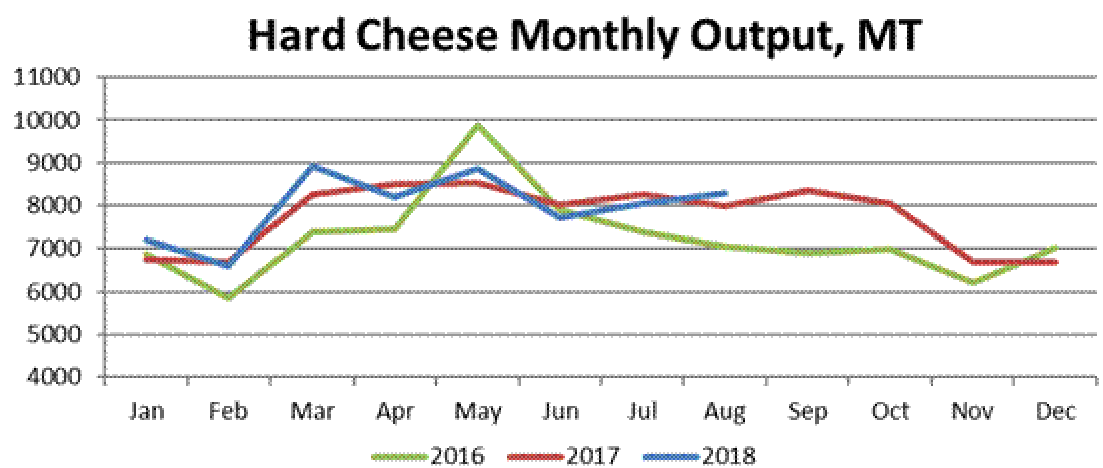
After the 2014 official closure of the Russian market to Ukrainian exports, Ukrainian producers focused predominately on the domestic market. In 2017, imports of cheese exceeded exports for the first time in history in 2017. This situation is not expected to change in 2018-2019.



Source: State Statistics Service of Ukraine

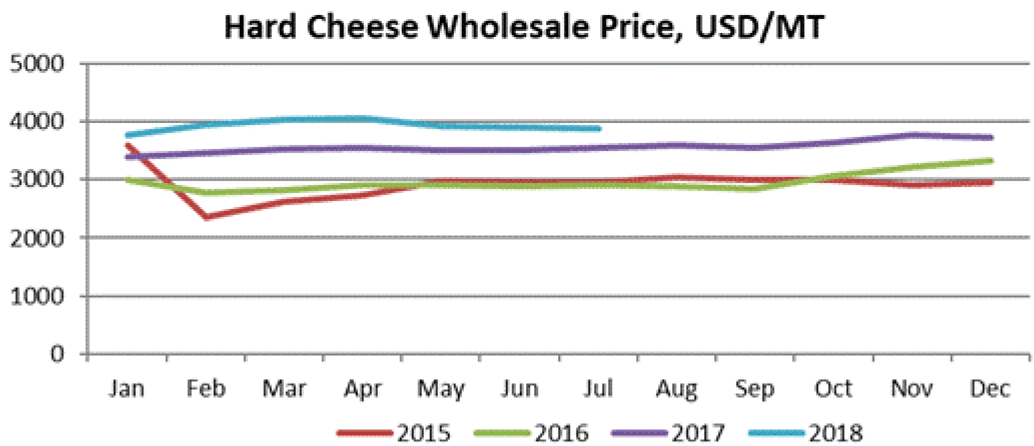
In 2018, cheese production grew insignificantly, driven by increased domestic demand.

<u>*Hard Cheese*</u>
Ukrainian cheese manufacturers concentrate on the lower segments of the domestic hard cheese market. Recovering demand allowed for a slight increase in production.



Source: State Statistics Service of Ukraine

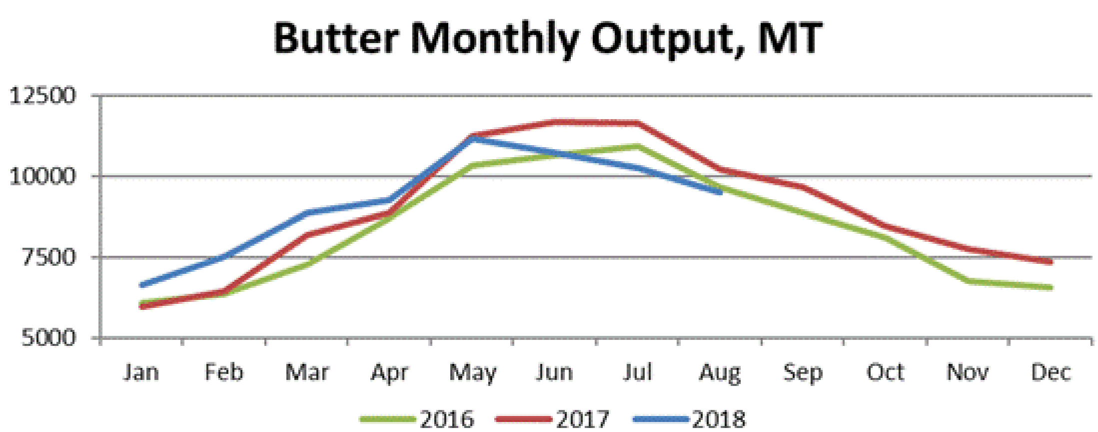
The price for hard cheese remained high in 2017 and 2018, industry had to compete with whole milk products and butter manufacturers for the shrinking supplies of fluid milk. This has restrained any growth in consumption.



Source: State Statistics Service of Ukraine

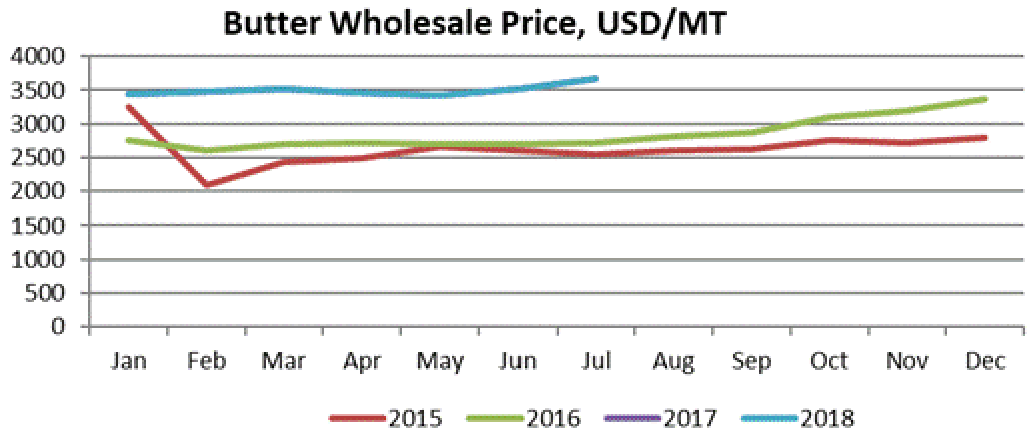
<u>*Butter*</u>

In early 2018, butter production increased due to export demand. Then with the weakening of butter export prices during the summer months, some butter production slowed as processors redirected raw milk to other processing uses. Butter production remains the major use of lower-quality household-produced milk. Production in the remaining months of 2018 and 2019 is expected to slow, due to lower export demand and limited fluid milk availability. Exports will remain strong in 2018 as stocks remain high.



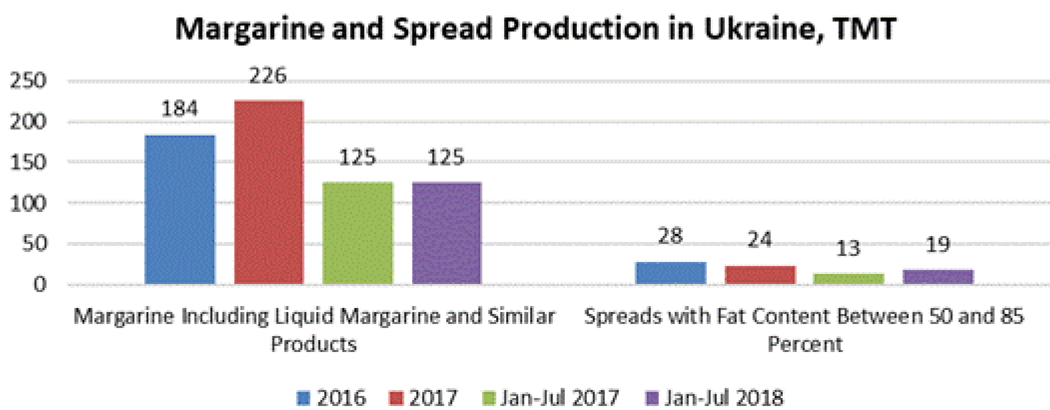
Source: State Statistics Service of Ukraine

Domestic butter prices grew fast in late 2017 with some stabilization early 2018, inspiring production. However, despite increased disposable incomes, Ukrainian consumers contracted consumption in 2017-2018. The world market price drop in late 2017, as well as consequent fluctuations, have had little impact on Ukrainian market demand. In June 2018, butter prices resumed growth, following a production slowdown. Monthly carry-over stocks subsequently grew significantly to 11.7 TMT in August 2018.



Source: State Statistics Service of Ukraine

This significant decline in Ukrainian butter consumption was accompanied by an increase in the production of spreads and margarines. Although consumption statistics are unavailable, margarine production increased by 23 percent in 2017. The production of spreads remained stable in 2017 but grew by 46 percent in early 2018.



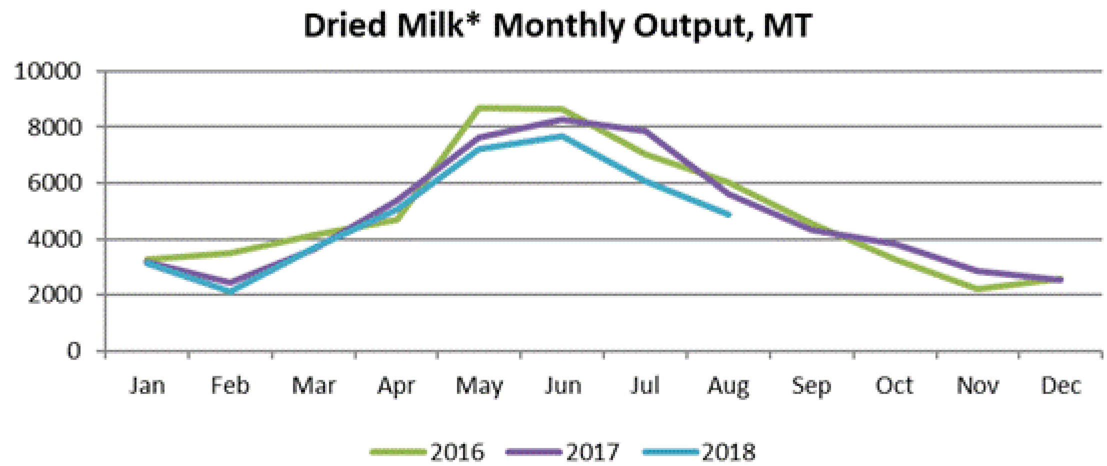
Source: State Statistics Service of Ukraine

The active replacement of butterfat with vegetable oil was a key domestic market trend in 2017-18. This trend is expected to continue into 2019 despite growing incomes and a widespread negative opinion among consumers toward mixed fat usage in butter production. Industry's need to lower cost of production and low consumer incomes limiting prices that Ukrainian consumers will spend continue to be the major driving factors for the industry's use of vegetable oil inputs.

Decreased domestic butter consumption together with butterfat substitution explains Ukraine's increased butter exports. Exports in 2017-2018 grew despite the drop in the consumption of fluid milk for industrial use.

Dried Milk Powders

PSD Note: Ukrainian Statistics Service resumed publication of separate production numbers for Skimmed Dry Milk and Whole Dry Milk Powder. Production numbers for 2017 were changed to reflect the Ukrainian official numbers.

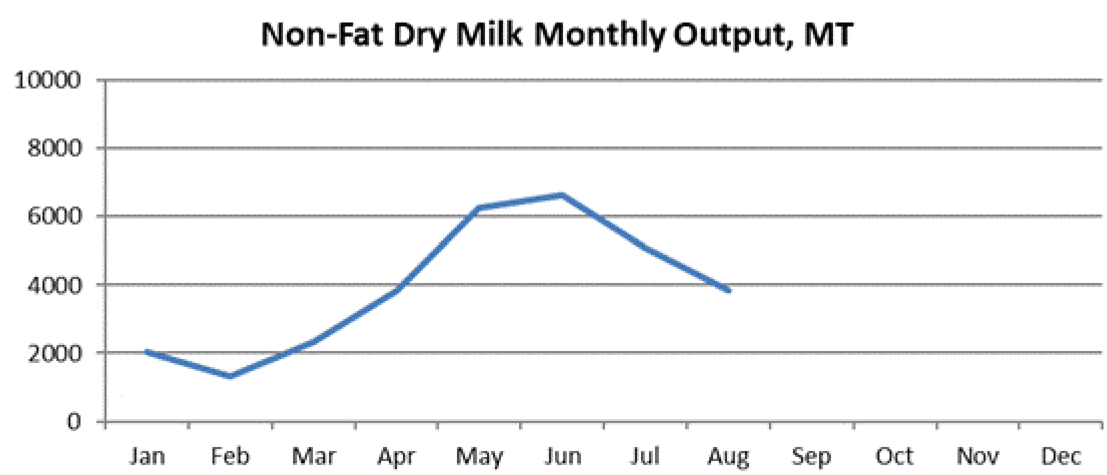


Source: State Statistics Service of Ukraine
** NFDM+WDM*

Production of dried milk products remained high in 2017 through early 2018. A slowdown in dried milk production started in May 2018 following the redirection of raw fluid milk to other (non-butter) factory use.

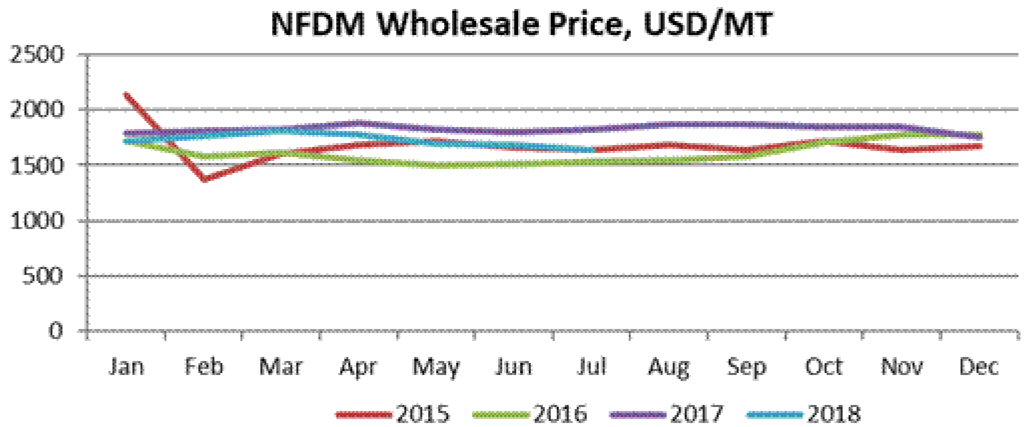
NFDM

Production of NFDM is closely tied to butter production. After some increase in early 2018, NFDM production slowed sharply in May. Ukrainian producers and traders do not carry significant skimmed dry milk stocks. Both export and domestic prices remained low discouraging production.



Source: State Statistics Service of Ukraine

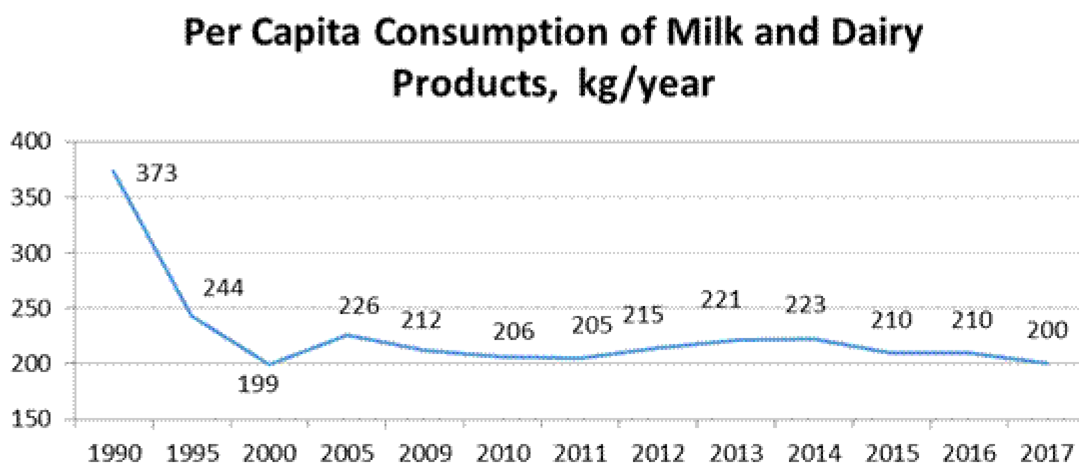
NFDM is the only commodity with 2018 prices lower than the 2017 prices.



Source: State Statistics Service of Ukraine

Consumption:

Despite a modest increase in disposable incomes, domestic consumption of dairy products dropped in 2017. Unable to compete with more affluent foreign buyers Ukrainians cut their consumption to a nearly all-time low number.



Source: *State Statistics Service of Ukraine*

The gradual contraction of fluid milk supplies also limits consumption of the majority of dairy products. Decreased butter consumption in 2017-2018 is expected to be very significant.

Consumption of cheese is expected to recover in 2018- 2019 despite higher prices and fierce competition with imported cheeses. In 2017, for the first time in history, imports of cheese exceeded cheese exports.

The open-air market segment for household produced cheese and butter remains significant. Traditional products are the cheapest alternative for low-income consumers. This segment also includes traditional soft cottage cheese, cream, sour cream and fluid milk.

Trade:

Ukraine remained a net-exporter of dairy products with total exports of USD 149 Million and imports of USD 25 million. Sweetened concentrated milk, skimmed milk powder and butter continue to be the major export articles. Infant formula and cheese lead imports. Concentrated sweetened milk (HS 040410) is Ukraine's top dairy export and China is the largest importer. China approved 28 Ukrainian facilities for import of dairy products in 2015-2018. The list is available under the following link (in Chinese).

Cheese

Ukraine's cheese export markets remain limited mainly to neighboring former Soviet Republics and North Africa. The quality of the cheese is a significant factor in the restriction of export markets. Low-quality fluid milk sourced from household farms does not allow for the production of high-quality cheese products. Ukraine has not been able to replace the lost Russian market with any other major export market. Exports in 2108-2019 are expected to be stable and comparable to the 2017 level.

Imports of higher-quality cheese in the mid-upper market segment increased significantly in 2018-2017. Growing incomes and a shift in consumer preferences toward higher-quality cheese will lead to an even greater increase in imports in 2019. EU countries (Poland for the middle-income market segment, and Germany, Netherlands and Italy for the upper-income market segment) are expected to benefit the most.

Ukraine's Major Export Destinations for Cheese*, MT

Partner Country	Years		Year To Date		
	2016	2017	07/2017	07/2018	% Change
World	8051	9063	4864	4556	-6.3
Kazakhstan	3683	3735	1995	1749	-12.3
Moldova	2598	2590	1402	1411	0.7
Egypt	690	989	552	575	4.2
Morocco	0	299	207	115	-44.4
Georgia	175	248	136	146	7.8
Azerbaijan	352	245	114	122	6.4
Others not Listed	551	953	455	434	-4.6

**HS 0406*

Ukraine's Major Import Sources for Cheese*, MT

Partner Country	Years		Year To Date		
	2016	2017	07/2017	07/2018	% Change
World	7058	10010	5117	6641	29.8
Poland	2707	3952	2051	2569	25.3
Germany	1866	2588	1326	1687	27.2
France	735	1096	528	883	67.3
Netherlands	555	769	380	492	29.7
Italy	328	385	203	262	29.4
Others not Listed	867	1219	629	746	18.6

**HS 0406*

<u>*Butter*</u>

Due to very attractive world market prices in 2017 and part of 2018, exports of butter reached record levels. New exports put Ukraine in the top 12 world butter exporters; however, the gap between the other top exporters and Ukraine is quite significant. Although, production started to decline in the middle of 2018, exports are expected to remain strong and exceed the 2017 level.

Weakening world prices, slowly growing domestic demand and a continuing shortage of fluid milk will limit exports in 2019. As production remains flat, Ukraine is not expected to increase exports further.

Ukraine's Major Export Destinations for Butter, MT

Partner Country	Years		Year To Date		
	2016	2017	07/2017	07/2018	% Change
World	9045	27005	12093	18408	52.2
Morocco	1323	6514	2683	5023	87.3
Turkey	560	5312	1660	3237	95.0
Georgia	1816	2196	1175	881	-25.0
Netherlands	700	2137	1118	1340	19.9
Egypt	1271	1209	691	244	-64.7
Kazakhstan	867	1191	571	219	-61.6
Moldova	414	1175	684	748	9.4
Others not Listed	2093	7273	3512	6714	91.2

Source: Global Trade Atlas
**HS 040510*

<u>*Skimmed Milk Powder (Non-Fat Dried Milk)/ Whole Milk Power*</u>

Ukrainian NFDM export markets are rather diversified with multiple destinations in the former Soviet

Union countries, Central Asia and Africa. These price-sensitive markets accept lower quality products. Due to stable butter production, production and exports of skimmed milk are not expected to change much in 2018-2019.

Export of WMP is not significant and is not expected to change in 2018-2019.

Ukraine's Major Export Destinations for NFDM*, MT

Partner Country	Years		Year To Date		
	2016	2017	07/2017	07/2018	% Change
World	34138	28724	17524	15534	-11.4
Kazakhstan	8285	6581	4926	2451	-50.3
Bangladesh	5032	5327	2850	4050	42.1
Georgia	1670	2398	662	1800	171.9
Armenia	1919	2208	1489	1077	-27.7
Azerbaijan	805	2009	715	353	-50.7
Malaysia	2650	1400	1000	1000	0.0
Philippines	875	1168	750	532	-29.1
Algeria	2148	1150	1100	0	-100.0
Others not Listed	10754	6485	4034	4273	5.9

Source: Global Trade Atlas
**HS040210*

Trade with EU

Trade with EU countries remains limited despite Ukraine achieving EU market access for selected Ukrainian dairy processors. In 2017, the European Commission cleared 19 processing plants (some with approved cold storage facilities) and one dedicated cold storage facility. No new facilities were approved in 2018. The list of Ukrainian establishments (published in the most recent European Commission's Third Country Establishments List) includes producers of butter, NFDM, milk, cheese, fluid milk and whole dairy products.
Beside the traditional technical casein market, Ukraine has slowly opened new EU markets for skimmed milk, cheese and whey. Butter became an important trade item in 2017, although declining production means that Ukraine will not be able to ensure the same level of supplies in 2018. The Netherlands was the major EU buyer of Ukrainian butter, while Poland and Germany purchased significant quantities of casein.

Trade in Dairy Products with EU-28 Countries, MT

Commodity	Description	Calendar Year					Year To Date		
		2013	2014	2015	2016	2017	07/2017	07/2018	% Chang

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Dairy Products	-2017	275.8	419.9	275.5	314.4	587.0	320.9	398.0	24.0
350110	Casein	274.4	412.3	271.0	279.3	401.7	232.5	251.5	8.2
040510	Butter	0.1	0.1	0.0	26.0	136.5	65.7	92.2	40.4
210500	Ice Cream	0.2	0.3	0.0	1.2	12.6	10.3	21.9	112.1
040150	Milk & Cream Fat Cont Gt 10%,	0.0	0.0	0.0	0.0	8.8	2.4	20.0	734.0
040210	Milk & Cream Cntd, Swt, Powder	0.0	6.1	3.7	6.6	7.4	4.5	2.7	-40.0
040221	Milk/Cream Cnctrd Nt Swtn Powder	0.0	0.0	0.0	0.0	6.5	2.6	6.6	152.5
040590	Fats And Oils Derived From Milk	0.0	0.0	0.0	0.0	6.0	0.0	0.0	
040610	Cheese (Unrpnd/Uncurd) Frsh Incl Whey Cheese Curd	0.1	0.0	0.0	0.1	2.9	0.0	0.0	6.9
040410	Whey & Modifd Whey	0.0	0.0	0.0	0.0	2.6	1.5	2.0	33.6

Source: Global Trade Atlas

Statistical Tables

Fluid Milk PSD Table*

Dairy, Milk, Fluid Ukraine	2017		2018		2019
	Market Year Begin: Jan 2017		Market Year Begin: Jan 2018		
	USDA Official	New Post	USDA Official	New Post	New Post
Cows In Milk	2,172	2,170	2,100	2,078	2,000
Cows Milk Production	10,300	10,275	10,250	10,070	9,900
Other Milk Production	260	245	270	230	220
Total Production	10,560	10,520	10,520	10,300	10,120
Other Imports	1	1	0	1	1
Total Imports	1	1	0	1	1
Total Supply	10,561	10,521	10,520	10,301	10,121
Other Exports	12	14	12	18	20
Total Exports	12	14	12	18	20
Fluid Use Dom. Consum.	5,199	4,998	5,150	4,862	4,810
Factory Use Consum.	4,300	4,448	4,308	4,400	4,300
Feed Use Dom. Consum.	1,050	1,060	1,050	1,020	990
Total Dom. Consumption	10,549	10,506	10,508	10,282	10,100
Total Distribution	10,561	10,520	10,520	10,300	10,120

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

Hard and Soft Cheese PSD Table*

Dairy, Cheese Ukraine	2017		2018		2019
	Market Year Begin: Jan 2017		Market Year Begin: Jan 2018		
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	6	6	6	9	9
Production	187	190	180	192	195
Other Imports	10	10	11	12	15
Total Imports	10	10	11	12	15
Total Supply	203	206	197	213	219
Other Exports	10	9	10	8	8
Total Exports	10	9	10	8	8
Human Dom. Consumption	187	188	181	196	202
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	187	188	181	196	202
Total Use	197	197	191	204	210
Ending Stocks	6	9	6	9	9
Total Distribution	203	206	197	213	219

*These are not official USDA numbers
Crimea numbers are included

Butter PSD Table*

Dairy, Butter Ukraine	2016		2017		2018
	Market Year Begin: Jan 2016		Market Year Begin: Jan 2017		
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	7	7	6	7	9
Production	107	109	115	106	103
Other Imports	1	1	1	1	1
Total Imports	1	1	1	1	1
Total Supply	115	117	122	114	113
Other Exports	28	28	35	32	29
Total Exports	28	28	35	32	29
Domestic Consumption	81	82	82	73	75
Total Use	109	110	117	105	104
Ending Stocks	6	7	5	9	9
Total Distribution	115	117	122	114	113

*These are not official USDA numbers
Crimea numbers are included

Nonfat Dry Milk PSD Table*

Dairy, Milk, Nonfat Dry Ukraine	2017		2018		2019
	Market Year Begin: Jan 2017		Market Year Begin: Jan 2018		
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	2	2	2	3	3
Production	55	47	54	46	46
Other Imports	0	0	0	1	0
Total Imports	0	0	0	1	0
Total Supply	57	49	56	50	49
Other Exports	29	29	20	25	25
Total Exports	29	29	20	25	25
Human Dom. Consumption	26	17	32	22	21
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	26	17	32	22	21
Total Use	55	46	52	47	46
Ending Stocks	2	3	4	3	3
Total Distribution	57	49	56	50	49

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

Dry Whole Milk Powder PSD Table*

Dairy, Dry Whole Milk Powder Ukraine	2017		2018		2019
	Market Year Begin: Jan 2017		Market Year Begin: Jan 2018		
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	0	0	0	1	1
Production	5	12	6	13	13
Other Imports	0	0	0	0	0
Total Imports	0	0	0	0	0
Total Supply	5	12	6	14	14
Other Exports	4	4	4	4	4
Total Exports	4	4	4	4	4
Human Dom. Consumption	1	7	2	9	9
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	1	7	2	9	9
Total Use	5	11	6	13	13
Ending Stocks	0	1	0	1	1
Total Distribution	5	12	6	14	14

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