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Report Highlights:

Ukrainian cattle and swine inventories contracted in 2019 and are expected to contract further in 2020 and 2021. Red meat production remained relatively inefficient and decreased, following inventory contraction. A record number of slaughter cattle and significant volumes of beef were exported in 2019. Beef remains overly expensive for price-cautious Ukrainian consumers, therefore Post estimates that exports will remain strong in 2020-21. African Swine Fever (ASF) remains a major obstacle for the Ukrainian swine industry. Pork importers fill market gaps left by domestic production. Consumers continue to substitute red meat with poultry in their diets.

Executive Summary:

Ukrainian cattle numbers continued a three decade-long downward trend. Farmers do not focus on beef production, rather it remains a by-product of dairy enterprise. Household and some industrial farm milk production remain rather inefficient, driving animal numbers and beef production down. While the number of modern dairy farms is growing, they are still insignificant to change the downward production trend. Cattle inventory and beef production is expected to contract further in 2020 and 2021. There is limited domestic demand for beef due to higher price compared to other animal proteins.

Ukrainian exports of live animals and beef will remain strong to offset limited domestic consumption. The outbreak of the human virus, SARS-CoV-2, in Europe and then subsequently in Ukraine (officially in mid-March 2020), resulted in significant market uncertainty and a collapse of red meat sales to hotels, restaurants and institutions. However, beef prices remained strong, supported by export demand for both live animals and beef. A record was set for slaughter animal exports in 2019, in excess of 107 thousand heads. Ukraine's exports of slaughter animals are expected to remain strong in 2020. Middle Eastern countries and Azerbaijan remain the major export destinations for Ukrainian live cattle. China became Ukraine's number one beef export market, replacing Belarus in 2020.

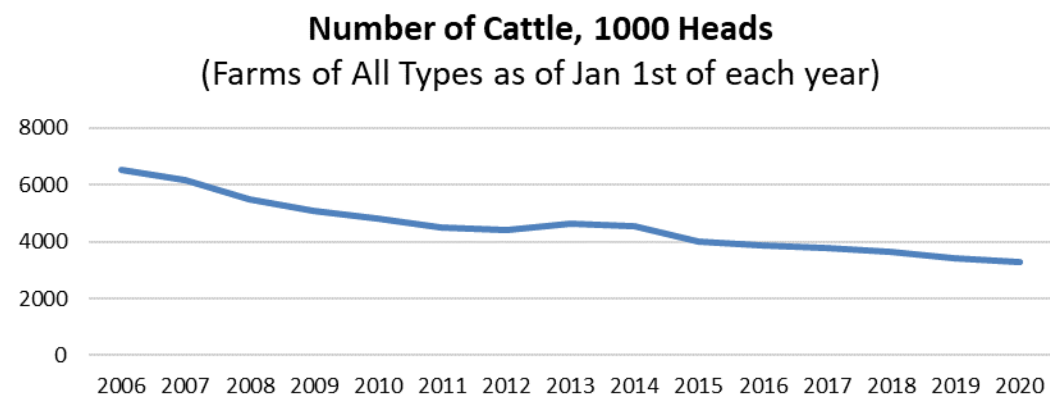
Ukraine's swine numbers declined in 2019 and are expected to continue on a downward trend in both 2020 and 2021. The Ukrainian swine industry was slightly optimistic at the end of 2019. As of January 1, 2020, the number of sows was at its highest point in the last three years, reflecting those positive expectations. However, that optimism quickly evaporated after the arrival of COVID in spring, 2020. Ukrainian production did not rebound in the first half of 2020. High production costs, lower pork prices, and an inflow of imports were the major factors suppressing production.

Domestic demand for pork declined in 2019 and is expected to contract further in 2020-21. Ukrainian consumers continued to substitute more expensive pork and beef with cheaper poultry. Ukraine remained an importer of pork, although lower demand resulted in a drop in Ukrainian imports. The majority of imports consisted of offal that was consumed by Ukrainian processors. Although, Canada was successful in developing a limited market for bone in hams and shoulders, offering then at competitive prices. Canada became the number one supplier of pork to Ukraine in the shrinking import market in January- May 2020.

Production

Cattle/Beef

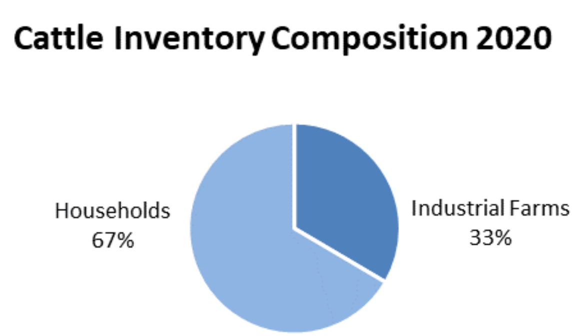
Ukraine's cattle inventory continued to shrink in 2019 and is expected to continue the downward trend in both 2019 and 2020. The number of beef animals remains insignificant and the majority of beef is derived from dairy and dual-purpose animals. In this way, beef production remains a function of milk production and prices. The majority of Ukraine's cattle population is concentrated in small households which concentrate on low-intensive, low-cost milk production. A significant number of animals are involved in subsistence farming, which is less receptive to price signals and serves as a safety-net to lower-income rural families. However, rising production costs, the limited availability of community pastures, and an increasing average rural population age will eventually lead to a contraction of cattle inventories in the household sector.



Source: State Statistics Service of Ukraine

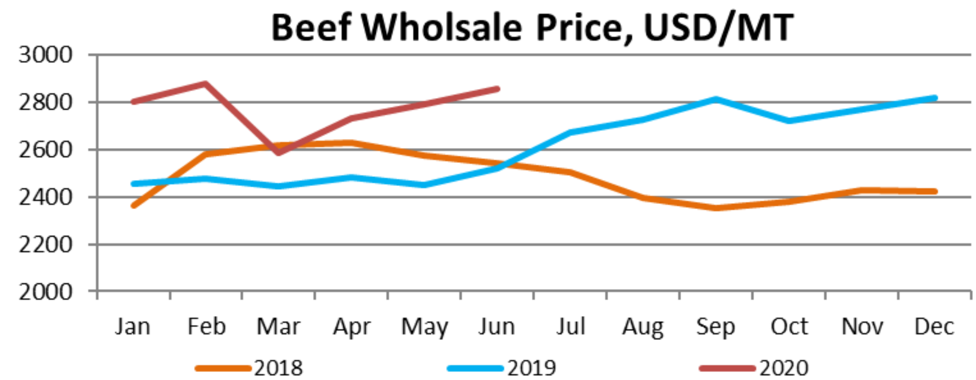
Large dairy farms in Ukraine tend to concentrate on milk production and sell young dairy calves to households after weaning for low-intensity, grazing-based feeding. The majority of these animals are slaughtered at a relatively low weight and young age. There are no large-scale finishing operations or feedlots in Ukraine, although larger farms and cooperatives are experimenting with dairy animal feeding.

Households play a major role in beef production, although their role is slowly diminishing over time. A significant share of household-raised cattle enters official sales channels. These animals are either slaughtered by industrial slaughterhouses or sold for export as live animals. The remaining animals are slaughtered in backyards for sale in open-air markets.



Source: State Statistics Service of Ukraine

Beef prices remained strong in late 2019 and 2020. Even COVID-related quarantine measures introduced in March, 2020 had only a short-term impact. A drop in prices in March were largely due to transportation and logistics difficulties that complicated the exporting live animals and beef. Beef prices fully recovered by July.

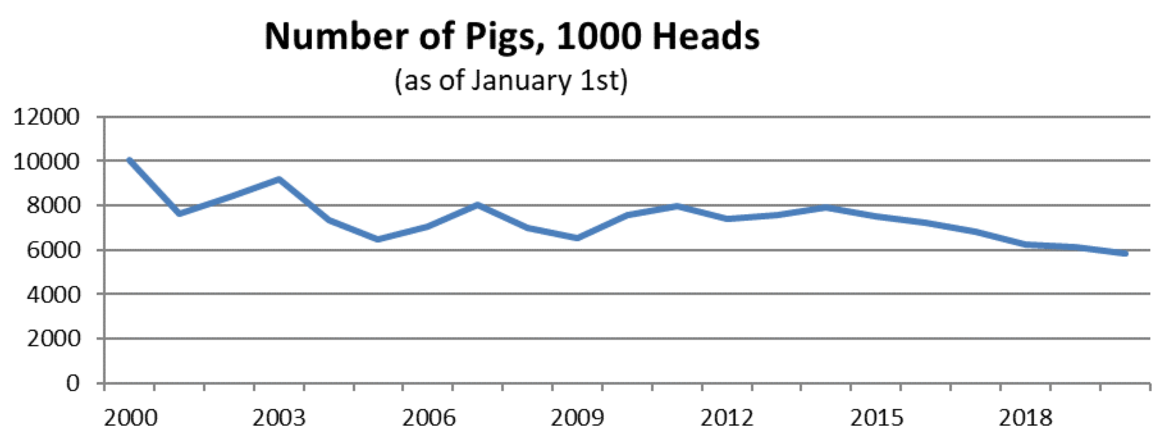


Sources: State Statistics Committee of Ukraine, National Bank of Ukraine, FAS/Kyiv

Post's PSD animal numbers for 2019 were corrected to reflect official statistics. The lower 2019 year-end animal inventory number is explained by corrected statistics from Crimea, which is added to Ukraine's total number. Slaughter and beef production were increased insignificantly to reflect lower inventories.

Swine/Pork

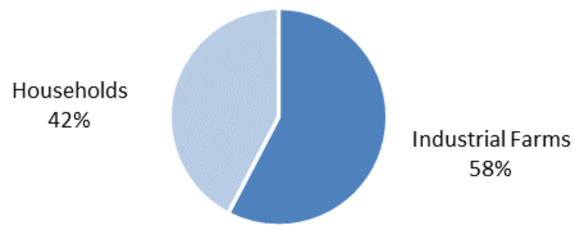
Ukrainian swine inventories dropped in 2019 and continued to decline in the first half of 2020. Lower domestic demand and the continuing risk of African Swine Flu introduction remained the main reasons for sluggish production.



Sources: State Statistics Service of Ukraine

The Ukrainian industrial sector is responsible for the largest share of pork production in Ukraine, growing by one percent in 2019 to 58 percent. Households produce pork predominately for own consumption and commercial backyard slaughter for further sales in open-air markets. Sales to industrial slaughterhouses remain small.

Swine Inventory Composition in 2020



Sources: State Statistics Service of Ukraine

Ukrainian swine producers observed strong economic growth in 2019, which should have resulted in higher disposable incomes and higher demand for pork. Pork prices continued to increase through out all of 2019, supporting swine producer expectations. To match market potential, producers started to increase sow inventories, which reached a three-year high in January, 2020.

The quick spread of the SARS-CoV-2 virus undermined swine producer expectations in early 2020. The Government of Ukraine introduced very strict quarantine measures in March 2020. Although neither swine production, nor slaughter, were directly impacted, logistics and inter-regional trade were hit. Sales to restaurants and hospitality businesses dropped to zero. Open-air markets were closed, squeezing household-raised pigs into industrial-slaughter channels. Pork prices dropped back to 2018 levels, driving both swine inventories and pork production down.

As of August 2020, both industrial and household swine production remain depressed. The number of sows is once again declining, promising no recovery in late 2020 or early 2021.

Disease Situation

ASF remains the largest threat to production decisions in both Ukrainian industrial and household sectors. Household and wild fauna outbreaks in proximity to large industrial producers create risk factors that are beyond the control of those large industrial producers. The potential is significant that any farm can find itself in a disease eradication perimeter and suddenly lose all of its animal inventory. As a result, the large number of outbreaks on small farms and the few known outbreaks on large bio-secure modern industrial farms discourage production. While households are compensated for culled animals, there is no official compensation program for industrial producers. Some industrial producers rely on commercially available insurance tools, but the cost of this insurance is very high. The number of officially registered outbreaks decreased significantly in 2019 and continue to decrease in 2020. Despite these lower official numbers in 2020, unfortunately Ukraine's ASF outbreaks were registered all over the country.

As of August of 2020, because Ukraine's ASF outbreaks have occurred all over the country, the Ukrainian industry has not been able to create production compartments that would be recognized by foreign trading partners. The ability to create such production compartments would have allowed for Ukraine to continue pork exports. This inability to create production compartments has meant that Ukrainian exports of pork remain limited to a small number of foreign markets. This has locked the Ukrainian industry into the price-cautious domestic market.

Table 1. African Swine Fever Spread in Ukraine

	2012	2014	2015	2016	2017	2018	2019	2020 (Jan-Aug)
Number of ASF Cases	1	16	40	91	163	145	53	16

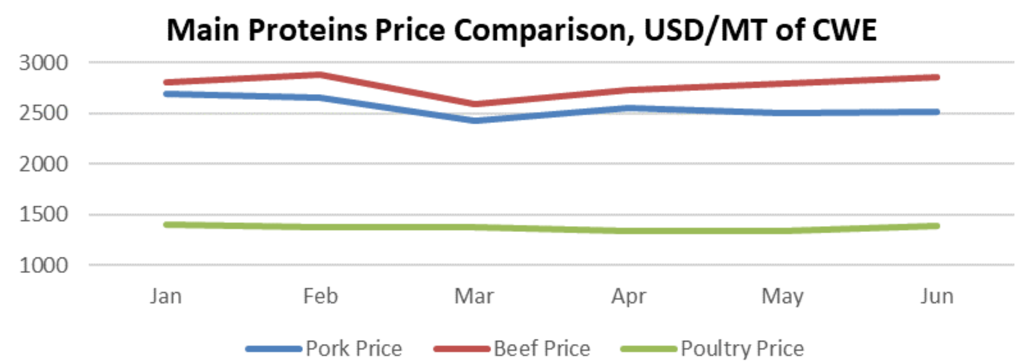
Source: http://www.asf.vet.ua, SSUFSCP, Institute for Laboratory Diagnostics and Veterinary-Sanitary Expertise

Consumption

Ukrainian red meat consumption continued on a gradual decline in 2019-20 and is expected to contract further in 2021. Despite increased disposable incomes in 2019, Ukrainian consumers remain price-cautious and prefer poultry to more expensive beef or pork.

Ukrainian beef consumers must compete with high demand for Ukrainian beef and live cattle in major export markets. Increasing export demand drives up beef price and depresses domestic consumption significantly. Despite COVID-related logistical and export problems, domestic beef price in early 2020 (with exception of March) reached 5-years maximum levels.

High-end beef products market constitutes a totally separate segment. Consumption is mostly limited to high-end restaurants and premium retail establishments. This segment is dominated by imports as Ukrainian cattle farmers are unable to provide stable supplies of high-quality beef cuts.

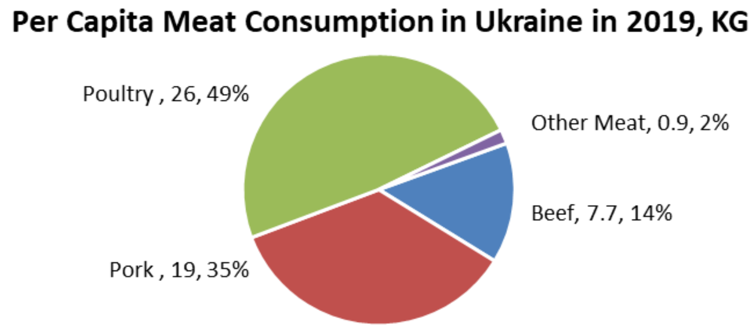


Sources: State Statistics Service of Ukraine

High pork prices in Ukraine throughout 2019 also suppressed domestic pork consumption. There was a slight decrease in pork prices in early 2020 after the COVID-related economic slowdown. Consequently, incomes dropped and are not expected to significantly support consumption in the remaining months of 2020.

The Ukrainian meat processing industry is interested in cheap inputs (mainly pork offal and lard) which generally cannot be supplied by domestic producers in the quantities demanded by Ukrainian industry. Ukraine’s poultry market resolved this dilemma by exporting expensive cuts while importing cheap offal. ASF-restrained Ukrainian pork producers do not have access to large export markets and thus have not been able to utilize the same trick as the poultry industry. Imports of cheap offal remained substantial in 2019 but declined in 2020 following the drop in demand.

Poultry remains the major animal protein with almost a 50 percent share of the Ukrainian diet. The COVID-associated economic downturn negatively impacted disposable incomes. Additionally, the downturn has widened the gap between poultry and red meat prices. This is expected to contribute to a further growth in poultry consumption in 2021.



Source: State Statistics Service of Ukraine

The real number of Ukrainian meat consumers is likely to be smaller than the official population numbers suggests, thus per capita consumption is higher. Official statistics already account for the 2.3 million drop in population due to the loss of control over the Crimean Peninsula. In addition, 2.5 to 3 million people are located in eastern Ukraine, which is not controlled by the Ukrainian central government. There are no red meat supplies to those territories.

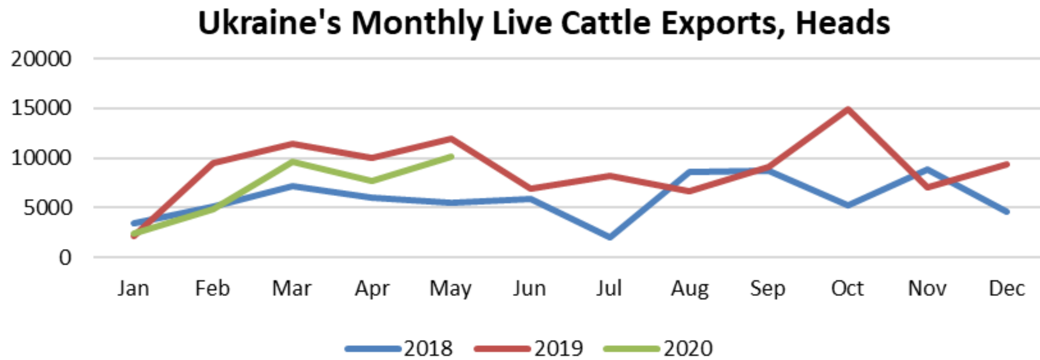
Moreover, prior to the COVID outbreak another 3.2 million Ukrainians worked abroad. This number decreased significantly in 2020 as the COVID-related restrictions in neighboring EU countries brought the majority of Ukrainian workers back home. The impact on red meat consumption from this return of workers to Ukraine has been mixed. The number of meat consumers living in Ukraine likely increased, however the flow of remittances from abroad dropped. This decline in remittances contributed to a decrease in consumption by families and dependents on foreign workers.

Trade

Cattle and Beef

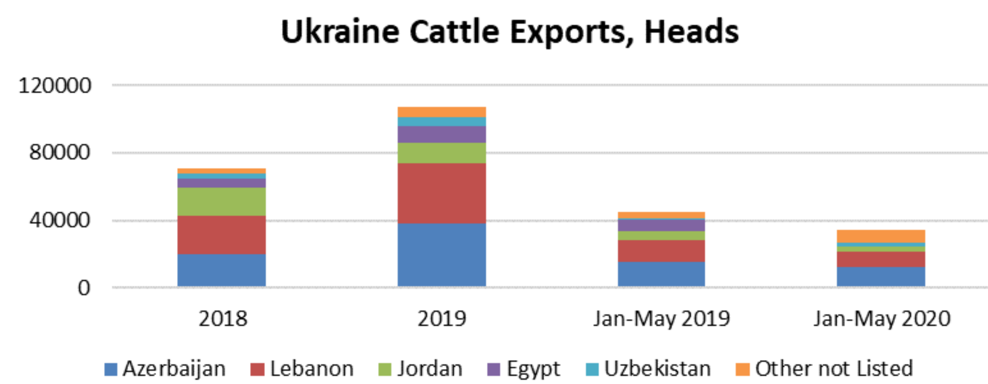
<u>*Exports*</u>

In 2019, Ukrainian exports of cattle for slaughter exceeded forecasts. High cattle prices and an increase in foreign demand resulted in an all-time high export number.



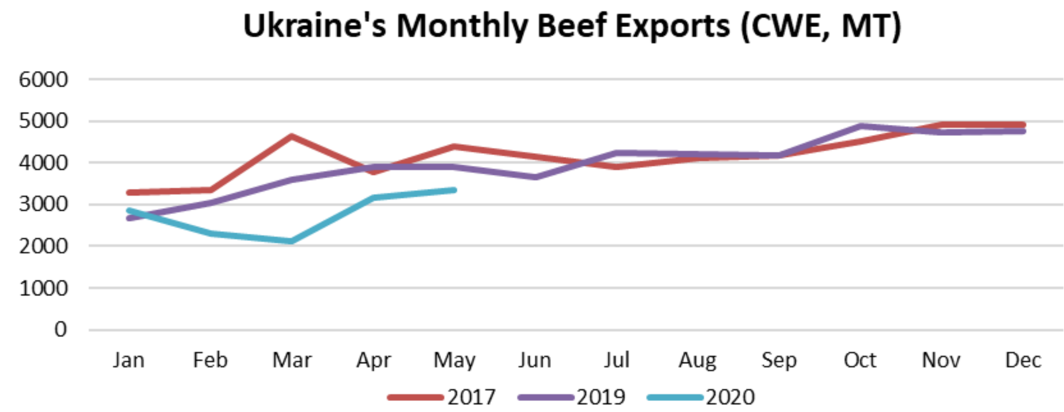
Source: Trade Data Monitor

In the last seven years, Ukraine was able to create reliable export markets in the Middle East and in Central Asia with Azerbaijan, Lebanon, Libya, Syria, and Jordan being the major export destinations. In the last couple years Ukraine has developed new export markets in the neighboring former-Soviet states. A significant demand from Azerbaijan and Lebanon drove Ukrainian exports up in 2019. Despite opening the Saudi Arabian market, exports of live cattle in 2020 are expected to be below the 2019 level. Shrinking cattle inventories leave little room for an increase in exports, although sporadic price spikes may ignite another large export waive.



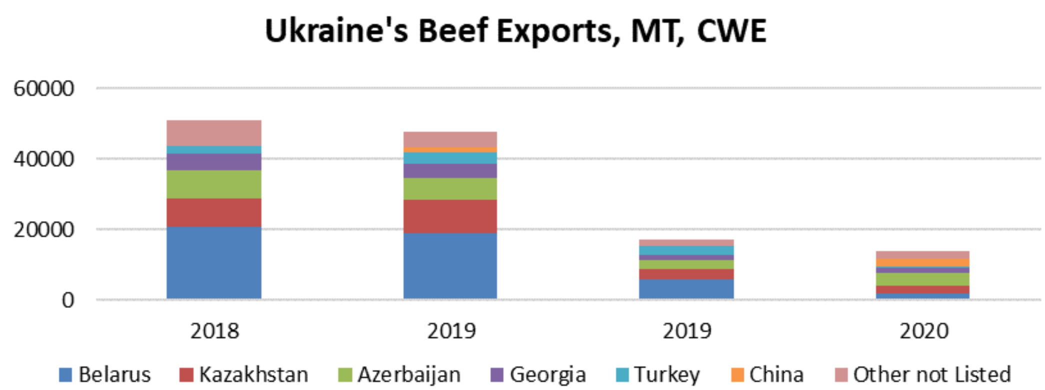
Source: Trade Data Monitor

The substantial decrease in Ukrainian live cattle exports and beef exports is not expected to change in 2021.



Source: Trade Data Monitor

Belarus replaced Russia as the largest importer of Ukrainian beef, after Russia's import ban introduction in 2016. Belarus and Russia are Eurasian Customs Union (EAEU) members with free trade flows of products between member countries. This situation changed in 2020 as Chinese importers expressed an interest in Ukrainian beef. With the spread of COVID, China conducted audits of Ukrainian facilities remotely through virtual applications. Although Azerbaijan became the largest importer of Ukrainian beef in early 2020, this situation is rapidly changing.



Source: Trade Data Monitor

Ukraine is not expected to start exporting beef to the EU in the near future despite availability of a beef import TRQ under the Deep and Comprehensive Free Trade Area Agreement. Traditional beef markets with less restrictive food safety requirements and live cattle exports provide more attractive export opportunities for Ukraine.

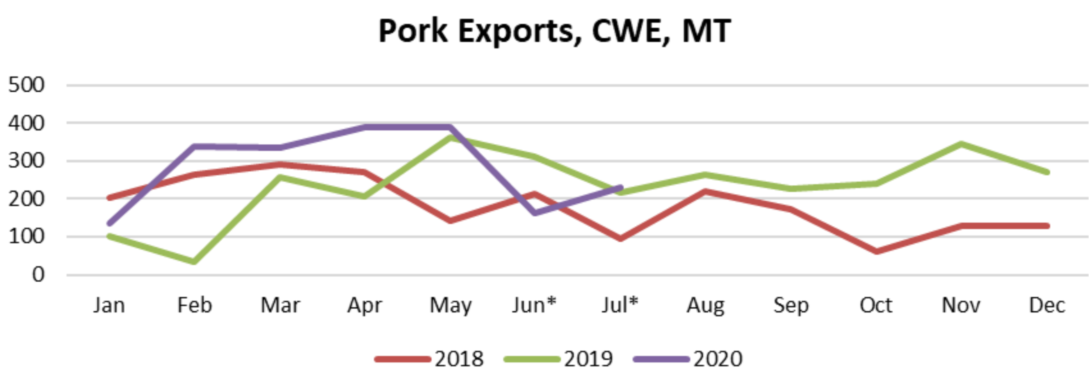
Imports

Ukraine is expected to remain an importer of small quantities of premium-quality beef. These beef imports are consumed by the Ukrainian HRI sector and upper segment retail stores. Trade is expected to remain stable despite COVID-related restaurant and hotel closures in spring 2020. The United States is one of the major suppliers of chilled beef cuts and Ukraine's imports of U.S. beef are increasing annually.

Pork

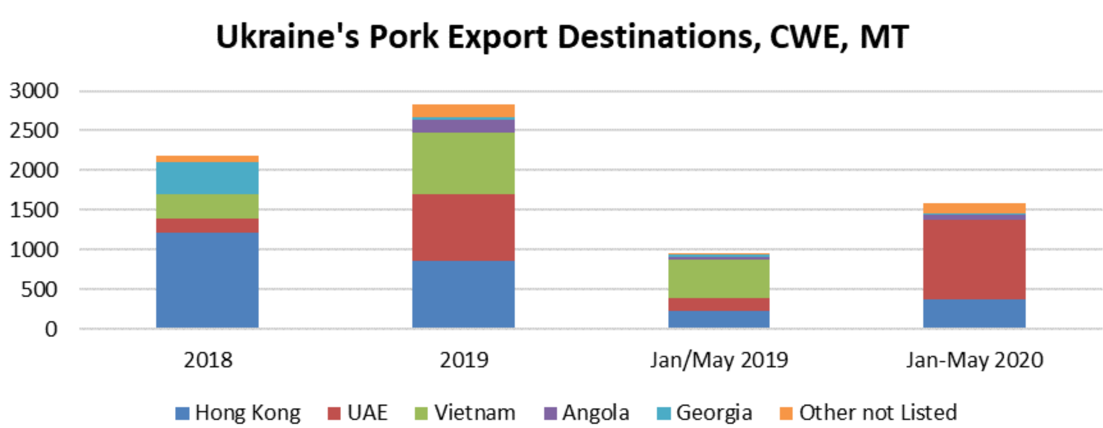
Exports

Due to permanent sporadic ASF outbreaks all over Ukraine, exports of pork are limited to only a few export destinations. The quantity of exported pork is insignificant. Large-scale exports are not expected to resume in 2021. Ukrainian pork producers explore regionalization and compartmentalization options to enable exports from selected bio-secure areas. As of August 2020, no compartments were created. If created, it is also not clear whether Ukraine's trading partners would recognize the compartmentalization.



Source: Trade Data Monitor

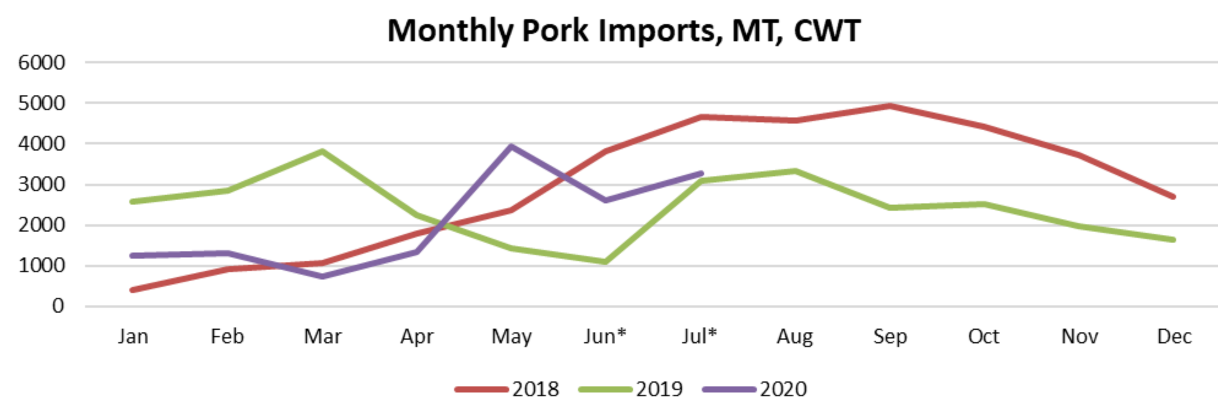
Ukrainian trade is limited to only a few export destinations. The majority of Ukraine's foreign markets are either in ASF-affected countries or countries without swine population.



Source: Trade Data Monitor

Imports

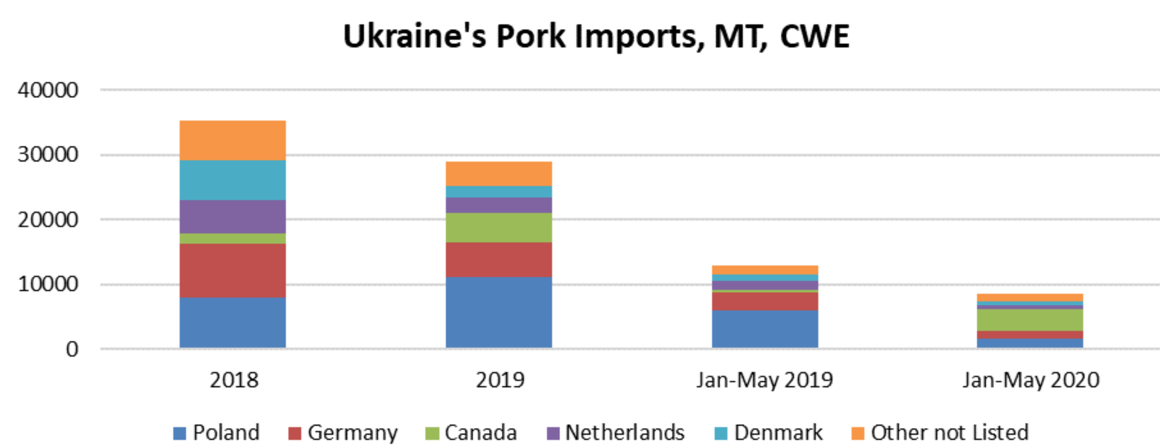
Following a growth in disposable incomes and an increase in demand for meat products, pork imports remained strong in both 2019 and 2020. Declining swine inventories and growing demand for cheap pork offal from Ukrainian meat processors may create some import opportunities in 2021.



Source: Trade Data Monitor

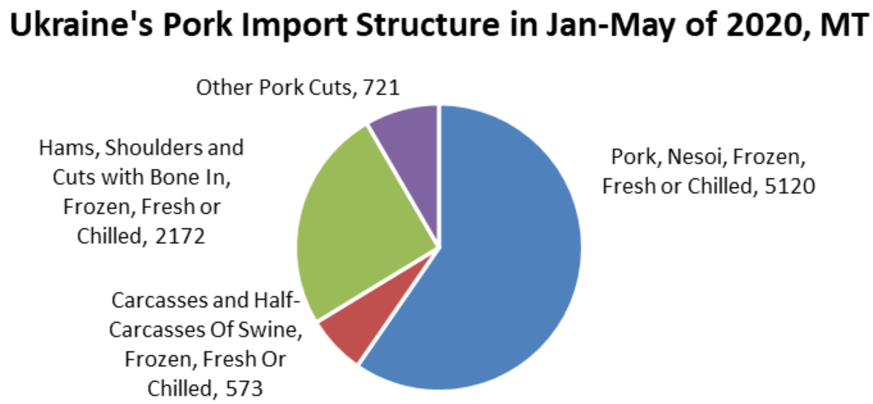
EU countries are expected to remain the major pork suppliers to Ukraine in 2020-21, although Canadian competition is expected to increase. In the past, Canada was competitive in only narrow product ranges - supplying bone in hams and shoulders (HS 020322). This situation changed in 2020 as Canadian exporters began to offer much-demanded pork trimmings (HS 020319, 020329) at attractive prices. Ukrainian meat traders believe that the availability of the Chinese market to Canadian meatpackers has had a direct impact on the prices and availability of Canadian pork to Ukrainian processors. Canadian suppliers also benefit from import TRQ established under Canada-Ukraine Free Trade Agreement (CUFTA) in 2017.

A zero-import-duty TRQ also provides an additional trade advantage to EU suppliers. Poland remains the major supplier, despite the registration of ASF cases in most regions.



Source: Trade Data Monitor

The majority of imports are consumed by the Ukrainian meat processing industry. Ukraine's import market consists mostly of pork trimmings and offal. However, limited export opportunities of higher value cuts also exist.



Source: Trade Data Monitor

Attachment I. PSD Tables

Ukraine Animal Numbers, Cattle

Animal Numbers, Cattle	**2019**		**2020**		**2021**
Market Begin Year	Jan-2019		Jan 2020		Jan 2021
Ukraine	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**New Post**
Total Cattle Beg. Stks	3645	3473	3483	3197	2890
Dairy Cows Beg. Stocks	2079	1970	2079	1840	1650
Beef Cows Beg. Stocks	21	20	20	19	18
Production (Calf Crop)	1995	2051	1920	1920	1720
Total Imports	2	2	2	2	2
Total Supply	5642	5526	5405	5119	4612
Total Exports	71	107	67	98	90
Cow Slaughter	0	0	0	0	0
Calf Slaughter	0	0	0	0	0
Other Slaughter	2052	2189	1955	2100	2000
Total Slaughter	2052	2189	1955	2100	2000
Loss	36	33	33	31	28
Ending Inventories	3483	3197	3350	2890	2494
Total Distribution	5642	5526	5405	5119	4612

**Not Official USDA Data*

Ukraine Animal Numbers, Swine

Animal Numbers, Swine	**2019**		**2020**		**2021**
Market Begin Year	**Jan-19**		**Jan-20**		**Jan-21**
Ukraine	**USDA Official**	**New Post**	**USDA Official**	**New Post**	**New Post**
Total Beginning Stocks	6150	6150	5848	5844	5650
Sow Beginning Stocks	375	379	367	412	400
Production (Pig Crop)	8740	8565	8450	8468	8200
Total Imports	22	22	20	10	15
Total Supply	14912	14737	14318	14322	13865
Total Exports	10	10	10	2	5
Sow Slaughter	0	0	0	0	0
Other Slaughter	8461	8343	8050	8170	7870
Total Slaughter	8461	8343	8050	8170	7870
Loss and Residual	593	540	588	500	490
Ending Inventories	5848	5844	5670	5650	5500
Total Distribution	14912	14737	14318	14322	13865

**Not Official USDA Data*

Meat, Beef and Veal

Meat, Beef and Veal	2019		2020		2021
Market Begin Year	Jan-19		Jan-20		Jan-21
Ukraine	USDA Official	New Post	USDA Official	New Post	New Post
Slaughter (Reference)	2106	2189	1972	2100	2000
Beginning Stocks	0	0	0	0	0
Production	360	378	330	365	345
Total Imports	1	2	1	2	2
Total Supply	361	380	331	367	347
Total Exports	47	48	43	43	42
Human Dom. Consumption	314	332	288	324	305
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	314	332	288	324	305
Ending Stocks	0	0	0	0	0
Total Distribution	361	380	331	367	347

**Not Official USDA Data*

Meat, Swine

Meat, Swine	2019		2020		2021
Market Begin Year	Jan-19		Jan-20		Jan-21
Ukraine	USDA Official	New Post	USDA Official	New Post	New Post
Slaughter (Reference)	8461	8343	8050	8170	7870
Beginning Stocks	0	0	0	0	0
Production	745	735	710	720	695
Total Imports	29	29	45	27	30
Total Supply	774	764	755	747	725
Total Exports	2	3	2	3	3
Human Dom. Consumption	772	772	753	744	722
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	772	761	753	744	722
Ending Stocks	0	0	0	0	0
Total Distribution	774	764	755	747	725

**Not Official USDA Data*

Attachments:

No Attachments