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Ukraine

Livestock and Products Semi-annual

Report

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Report Highlights:
The political and economic turbulences of recent years resulted in notable decrease in domestic red meat demand. Consumers turned toward cheaper poultry products. Live cattle exports skyrocketed and will grow in 2018. Beef exports will remain significant, but flat due to lack of export capacity and competition with live cattle exports. Pork imports resumed in late 2017 due to slow demand recovery, but are expected to remain low in 2018. Ukraine is likely to see an insignificant decrease to its cattle herd numbers. Swine inventory is likely to recover toward the year-end of 2018. Pork production will be low due to the low animal inventory in 2017.

Executive Summary:

Ukraine's red meat production remained depressed in recent years. Economic and political turmoil in the country resulted in a notable drop in disposable incomes. Consumers reduced consumption of beef and pork, switching to inexpensive domestically produced poultry, even cheaper imported poultry offal. Ukrainian livestock producers reacted by reducing production. Although demand rebounded somewhat in 2017, the industry was slow to recover due to the nature of its long production cycles and inability to react quickly.

Ukrainian pork producers also lost many of their foreign markets. Russia shut down all pork imports from Ukraine from the beginning of 2016. Access to other markets became restricted due to the quick spread of African Swine Fever (ASF) and multiple outbreaks in the country. Georgia (also impacted by ASF) remained the major export destination for Ukrainian pigs and pork. Due to significant sow number contraction in 2017, the industry was not able to increase production when demand returned and prices rebounded toward the 2017 year-end. That situation led to some imports. However, the industry is likely to regain momentum toward the 2018 year-end. The import forecast for 2018 was reduced significantly to reflect the expected recovery and still weak domestic demand. Pork production in 2018 will remain low due to low sow numbers in 2017 and the lower pig inventory in early 2018.

Ukrainian beef production suffered less due to availability of stable international demand. The Russian market loss impact was negligible. Higher milk prices had some positive impact on the animal retention rate in 2017. Ukraine also developed significant foreign markets for live cattle for slaughter. Exports grew and are expected to continue growing in 2018. Azerbaijan and North Africa will remain the top export destinations for live cattle. Only marginal corrections to PSD tables were made to reflect official statistics.

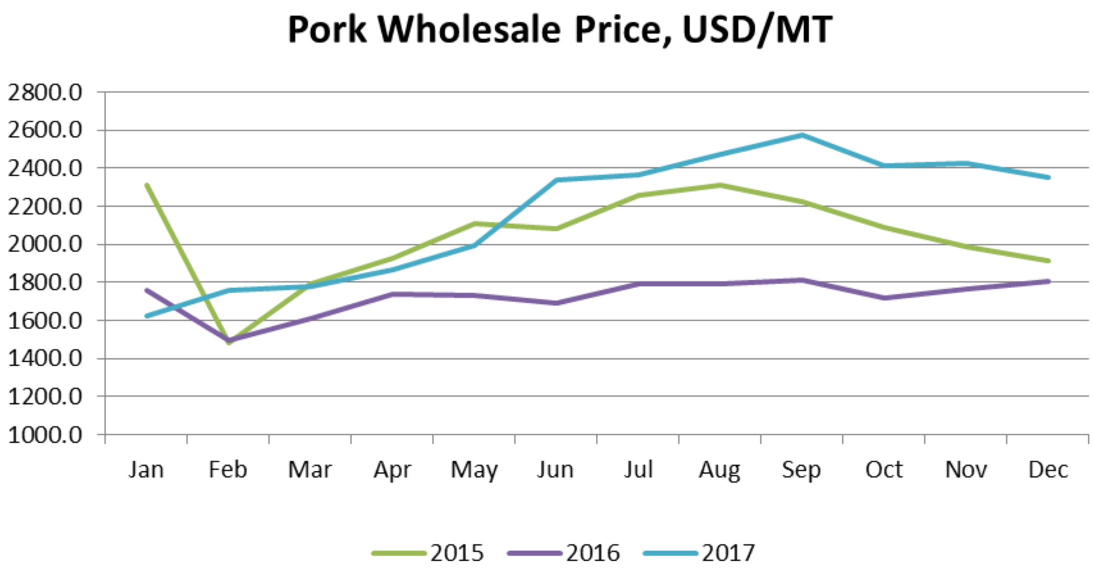
PSD Calculations Notes
Ukraine discontinued its animal slaughter number publication in 2016. Although this indicator is expected to be restored in 2018, the 2016/17 indicators were reconstructed from the official meat production and official slaughter weights. Due to changes to its data collection system, the Ukrainian State Statistics Service did not publish many 2017 indicators by the time this report was compiled. Projections and reconstruction were used wherever possible.

Production

Swine/Pork

The swine animal number was in decline in 2016-17, but is expected to stabilize in 2018. Significant numbers of non-specialized pig farms went out of business as they were unable to make a profit. Some production recovery was noted in late 2017 when larger swine producers began increasing sow numbers in response to price growth and recovering domestic demand for pork. The production crisis resulted in a larger, more resilient and more specialized industry.

Hog slaughter and pork production will remain low in 2018. Low pig inventories will not allow for significant increases.

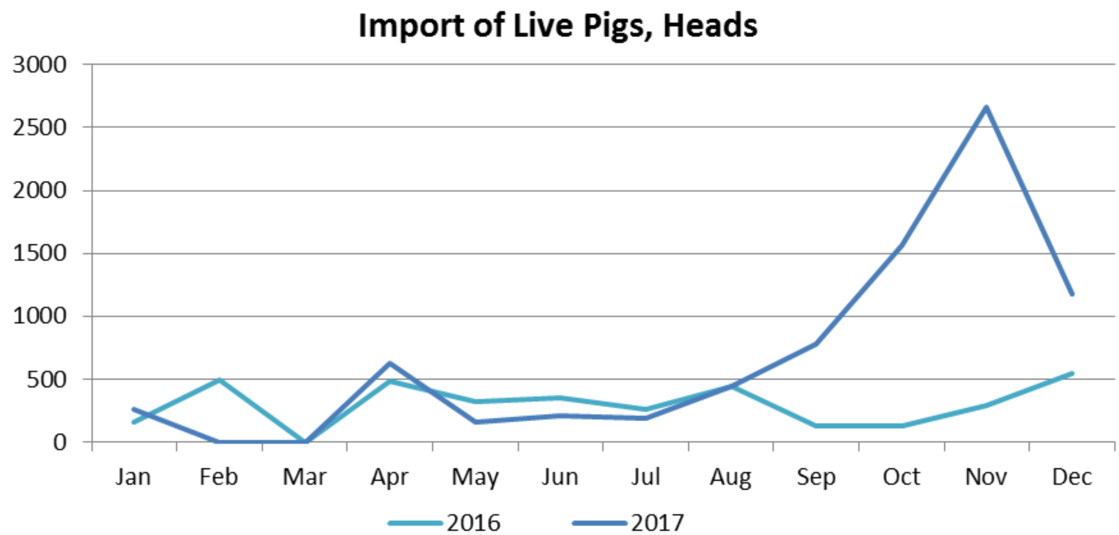


Sources: State Statistics Service of Ukraine, National Bank of Ukraine, FAS/Kyiv

Households continued to be contribute almost half of the animal inventory. Although less susceptible to pork market price fluctuations, household farms exhibited production trends that are similar to industrial pig farms.

The major factor influencing production in both the industrial and household subsectors in 2018 will be the spread of AFS. ASF outbreak frequency increased greatly in 2017, with 163 outbreaks registered (119 in households, 38 in wild nature and 6 small pig farms). In just the first few weeks of 2018, 37 confirmed cases were registered. Households remain the most vulnerable to disease due to lack of basic sanitary practices. Non-specialized small farms are included in this risk group as well. Larger farms and specialized vertically integrated companies are less prone to ASF spread. However, disease slows down industry development as significant financial resources need to be allocated to biosecurity measures and training of personnel. No major industrial pork producer was impacted by AFS in 2017.

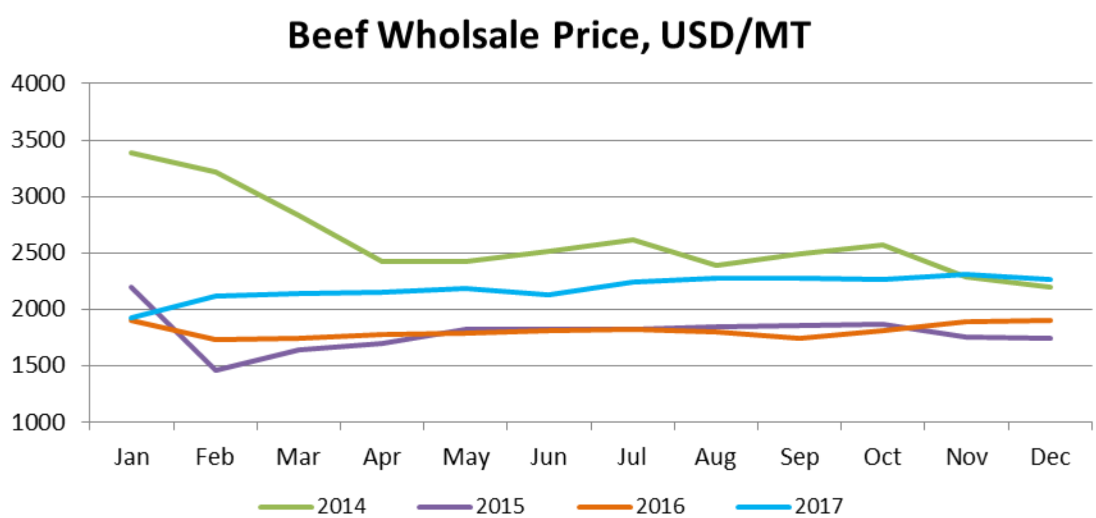
Imports of live pigs remain a good indicator of production perspectives. After an all-time low in 2016, the import of purebred pigs with improved genetics recovered toward the 2017 year-end. Although industry sources indicate there is high demand for young piglets for fattening, the import market for young piglets has not yet recovered.



Source: Global Trade Atlas

Cattel/Beef

Ukrainian beef production remains to be a function of milk production and prices. Beef prices remained strong in 2017, following increased exports of Ukrainian beef and skyrocketing exports of Ukrainian live cattle. Discovery of new foreign markets for Ukrainian beef, and redirection of Russian imports to Belarus, insured a stable market for Ukrainian producers.
No major changes are expected in 2018 with production; and cattle inventory is expected to decline insignificantly.



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

Consumption

Although recovering, disposable incomes will remain low in 2018. Consumption of cheap poultry product continues to increase, squeezing markets for pork products. Pork consumption is expected to reach its minimum in 2018, following the limited slaughter and relatively low imports.

Beef is more expensive with a respectively smaller market share. Ukrainian consumers have to compete with more affluent neighboring countries for beef and beef products. A shift toward cheaper proteins was the major trend in recent years. A premium beef market was formed in Ukraine, but only a very small share of consumers is ready to pay for the finest beef.

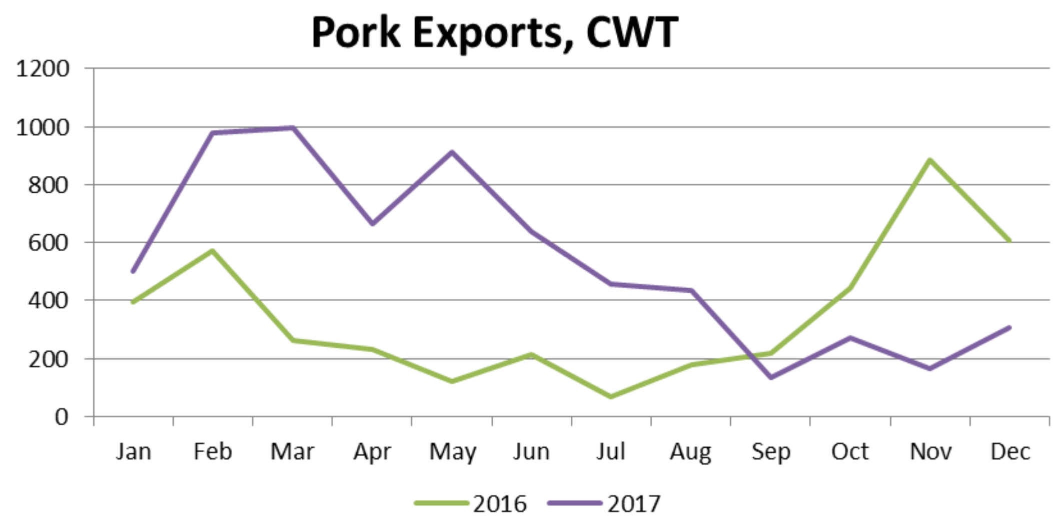
Trade

Trade in red meat products was reshaped notably after the Russian market closure for all meats and the spread of ASF all over the country. Trade in beef continued as Belarus replaced Russia as the main buyer. New markets for live cattle were developed in the last three years. Trade in pork diminished significantly as no sizable exports are possible due to ASF, and little imports are needed due to low incomes and the consumer preferences shift to poultry. Low disposable incomes also promote exports of beef – the most expensive meat – which became too expensive for many consumers.

Exports

Pork

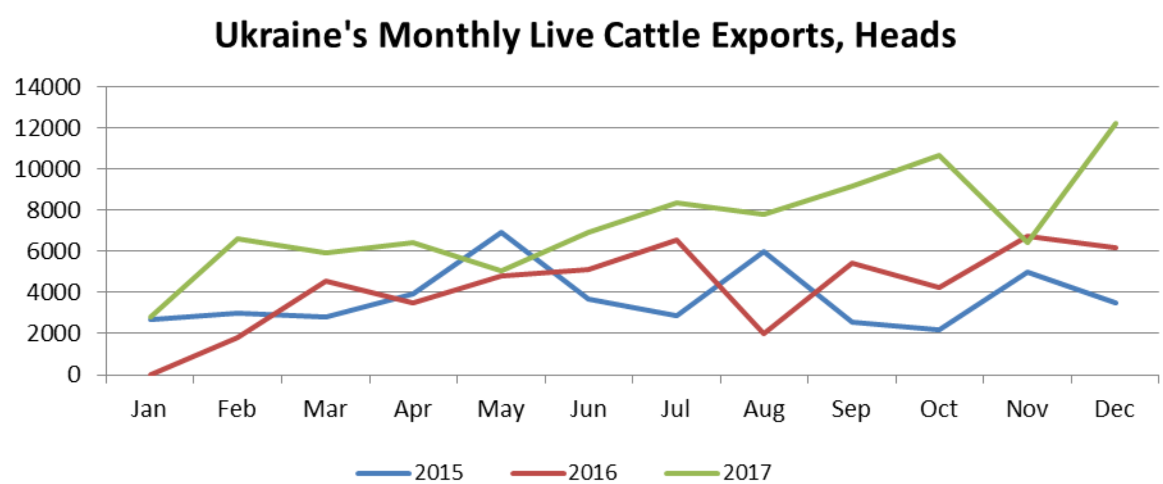
Due to African Swine Fever, exports of pork are very limited. Georgia (also impacted with ASF) is the major destination. However, some countries agreed to grant limited access to Ukrainian pork despite the disease situation. Ukraine was able to ship pork to Armenia and even Hong Kong. Access to Moldova's market remained restricted despite a FTA. ASF will remain the major export obstacle in the next decade. It would be difficult to maintain exports from large bio-secure industrial farms because new cases are registered on a weekly basis and product is often transshipped through impacted regions. No significant market expansion is expected in 2018 or in the near future.



Source: Global Trade Atlas

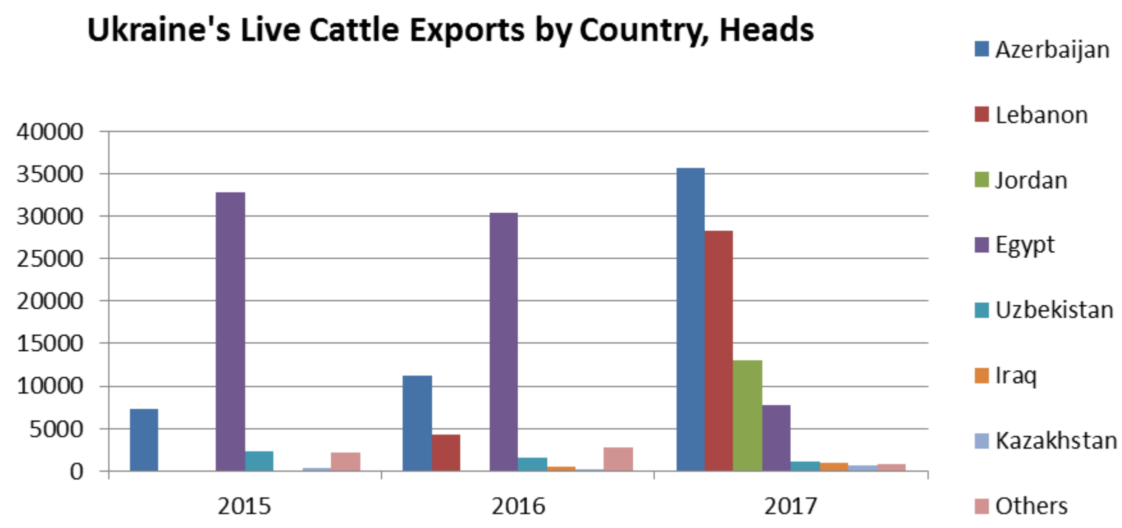
Cattle and Beef

Due to high demand for live cattle for slaughter, Ukraine was able to build a significant market for live animals. Exports grew through 2017 and are expected to continue growth in 2018. Competition for live cattle exports undermines in-country slaughter, and depresses domestic beef consumption and beef exports.



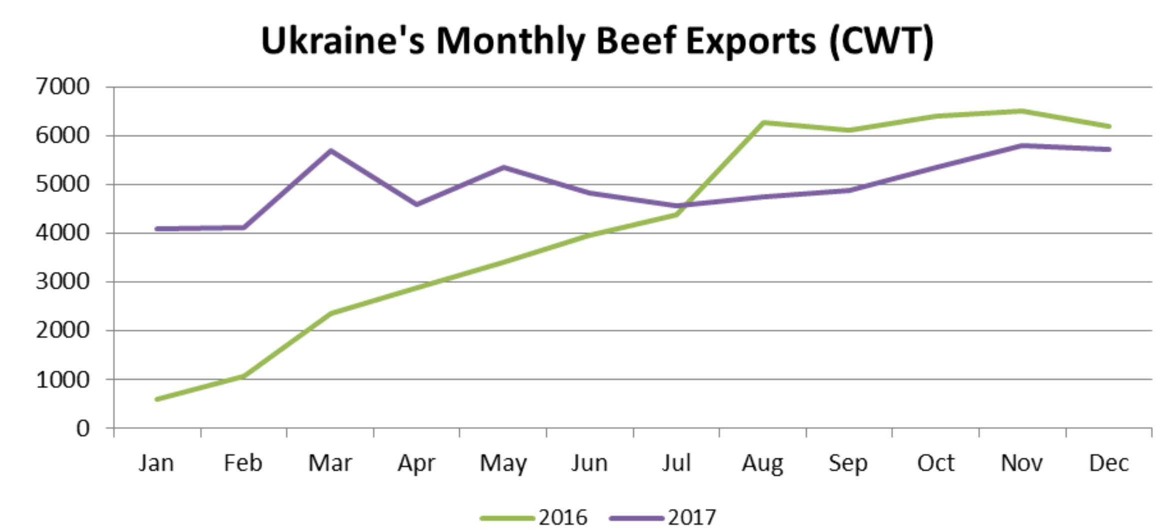
Source: Global Trade Atlas

Markets for Ukrainian cattle were developed in Central Asia, Caspian Sea countries, and North Africa. Some of them are also Ukrainian beef importers. Lack of modern slaughter facilities, low sanitary standards in existing slaughter operations, and inability to satisfy specific importers' requirements with respect to slaughter norms and conditions led to an increase in live animal exports. There is no evidence of significant investments into meat processing, thus exports of live cattle are likely to grow.



Source: Global Trade Atlas

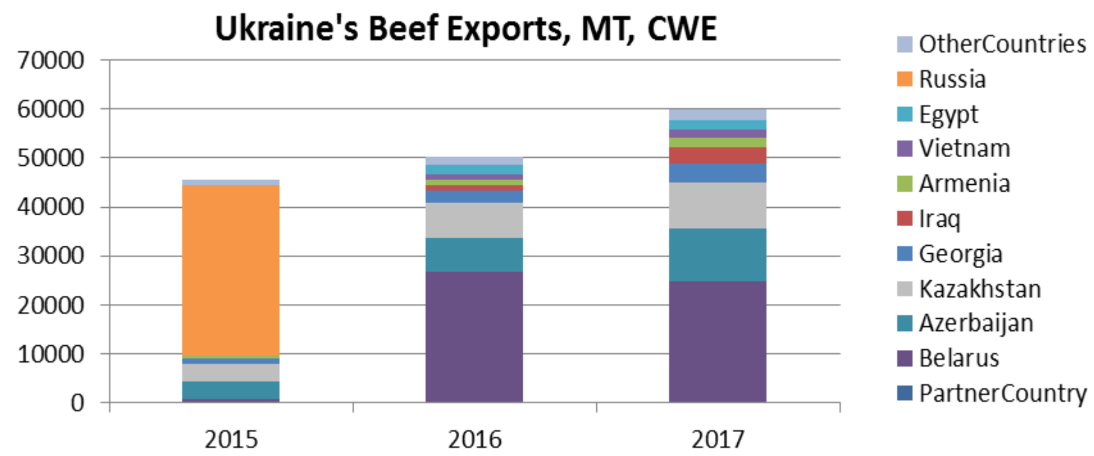
Beef exports stabilized in 2017, unable to compete with live cattle exports. High beef prices facilitated some export increase toward the end of 2017. Exports are expected to remain high, but flat in 2018. Ukraine may attempt to open the EU market for beef and beef products in 2018. The available beef TRQ is not utilized due to a lack of approved facilities. However, the approval procedure may be lengthy and only a handful of Ukrainian facilities may pass the audit.



Source: Global Trade Atlas

Russia's beef market closure had little impact on Ukraine's beef exports, as neighboring Belarus became the largest importer of Ukrainian beef. Beef exports established another all-time record in 2017, and became more diversified. Belarus consumes less than half of Ukraine's exports with new markets developed in Azerbaijan, Kazakhstan and Georgia. Belarus, Kazakhstan and Russia are

Eurasian Customs Union members and enjoy benefits of free trade among the countries.



Source: Global Trade Atlas

Imports

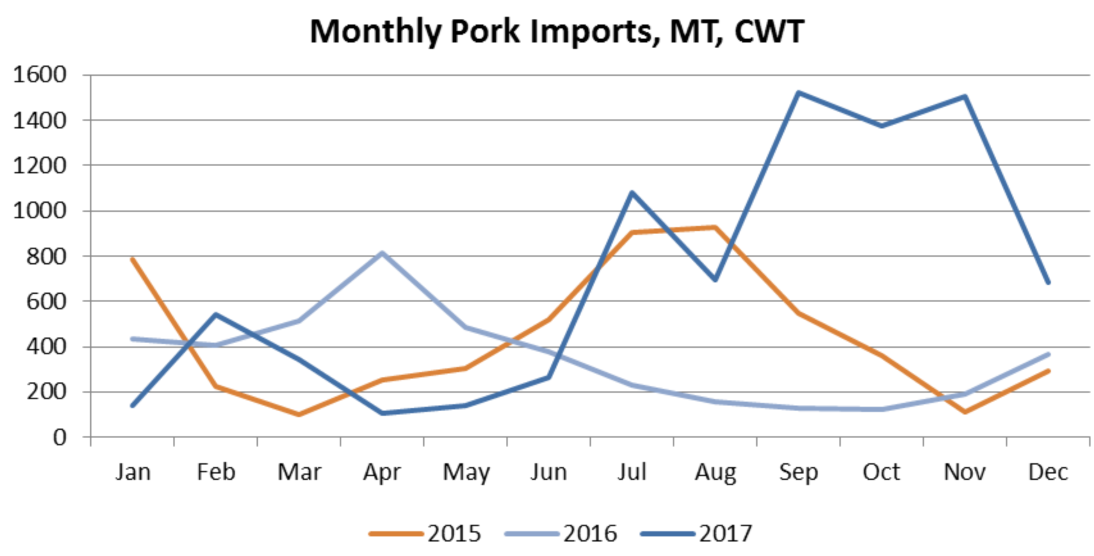
Imports were low in 2017 due to low disposable incomes. No significant import recovery is expected through the end of 2018 due to slow income recovery and a general shift toward inexpensive imported poultry products.

Beef

Ukraine imports small quantities of expensive beef cuts from the U.S. The vast majority of imports from the U.S. are consumed by Ukrainian restaurants and international chain hotels in larger cities, where an affluent population resides. Although small in volume, this market is established and is expected to grow in size over time.

Pork

Ukraine increased pork imports in late 2017. After the Russian market closure in 2016, Ukrainian producers decreased sow numbers anticipating a pork price collapse. Although an animal number drop was expected and justified, the industry was unable to increase production rapidly when demand for pork returned in late 2017. That situation resulted in some imports. These imports are likely to continue into early 2018. Ukrainian pork producers are likely to gain momentum in the second half of 2018, covering additional demand. Industry sources remain skeptical as to further import increases. Lack of financial stability and currency swings are named among the main reason for low imports.



Source: Global Trade Atlas

Section II Statistical Tables *

Ukraine Animal Numbers, Cattle

Category	2016		2017		2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Cattle Beg. Stks	3861	3861	3798	3798	3760	3739
Dairy Cows Beg. Stocks	2226	2226	2172	2172	2100	2124
Beef Cows Beg. Stocks	24	24	22	22	21	21
Production (Calf Crop)	2160	2160	2080	2080	2000	2000
Total Imports	3	3	1	1	1	1
Total Supply	6024	6024	5879	5879	5761	5740
Total Exports	51	51	70	88	70	100
Cow Slaughter	0	0	0	0	0	0
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	2137	2137	2011	2014	1934	1903
Total Slaughter	2137	2137	2011	2014	1934	1903
Loss	38	38	38	38	37	37
Ending Inventories	3798	3798	3760	3739	3720	3700
Total Distribution	6024	6024	5879	5879	5761	5740

**Not Official USDA Data*

Ukraine Animal Numbers, Swine

Category	2016		2017		2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Beginning Stocks	7240	7240	6816	6816	6350	6248
Sow Beginning Stocks	538	538	430	430	480	450
Production (Pig Crop)	10760	9296	8770	7700	9600	8000
Total Imports	4	4	3	8	3	12
Total Supply	18004	16540	15589	14524	15953	14260
Total Exports	27	27	35	33	35	35
Sow Slaughter	0	0	0	0	0	0
Other Slaughter	10461	8997	8524	7563	8788	7295
Total Slaughter	10461	8997	8524	7563	8788	7295
Loss	700	700	680	680	630	630
Ending Inventories	6816	6816	6350	6248	6500	6300
Total Distribution	18004	16540	15589	14524	15953	14260

**Not Official USDA Data*

Meat, Beef and Veal

Category	2016		2017		2018	
	USDA Official	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Slaughter (Reference)	2147	2137	2075	2014	1934	1903
Beginning Stocks	15	15	15	15	15	15
Production	391	391	370	370	360	350
Total Imports	2	2	2	2	2	2
Total Supply	408	408	387	387	377	367
Total Exports	50	50	60	60	65	60
Human Dom. Consumption	343	343	312	312	297	292
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	343	343	312	312	297	292
Ending Stocks	15	15	15	15	15	15
Total Distribution	408	408	387	387	377	367

**Not Official USDA Data*

Meat, Swine

	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Slaughter (Reference)	8953	8997	8524	7563	8788	7295
Beginning Stocks	0	0	0	0	0	0
Production	783	783	640	660	660	640
Total Imports	4	4	3	8	80	15
Total Supply	787	787	643	668	740	655
Total Exports	4	4	8	5	4	5
Human Dom. Consumption	783	783	635	661	736	650
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	783	783	635	663	736	650
Ending Stocks	0	0	0	0	0	0
Total Distribution	787	787	643	668	740	655

**Not Official USDA Data*