USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network



Required Report - public distribution

**Date:** 3/7/2017
**GAIN Report Number:** UP1707

# Ukraine

# Livestock and Products Semi-annual

# Report

**Approved By:**
Dwight Wilder, Agricultural Attaché

**Prepared By:**
Alexander Tarassevych, Agricultural Specialist

**Report Highlights:**
The political and economic crisis of 2013-2015 resulted in significant currency devaluation and domestic demand decrease for red meat. Simultaneously, the major export market – Russia – introduced a red meat import ban on Ukraine on January 1, 2016. Ukrainian beef producers subsequently discovered new foreign markets for their products. Swine producers have been less fortunate, reducing production and concentrating on satisfying domestic demand. The situation for the beef market is not expected to change in 2017. Pork production decreases are expected to slow down by the end of 2017.

**Executive Summary:**

Weak domestic demand that followed a significant disposable income drop in 2013-15, accompanied with fragile economic growth in 2016, resulted in a moderate beef consumption decrease in 2016. Unable to find domestic buyers, cattlemen and meatpackers turned to export markets. Exports of both live cattle and beef increased notably.

The situation of the pork market differed. Significant excess supply that was created due to the same consumer income drop was exported to the Russian market in 2015. Upon introduction of the import ban on January 1st of 2016, Ukrainian producers had no choice but to return supplies to the domestic market while simultaneously searching for available foreign markets elsewhere. African Swine Fever (ASF) spread throughout the country and hampered the search for open markets. Although market expansion to the country of Georgia, as well as discovery of Hong Kong and Vietnamese markets helped, it did not improve the situation much and exports collapsed. Pork supplies piled up at home pushing prices down to historical lows and boosting consumption. Pork was the only animal protein showing domestic consumption growth in 2016.

Simultaneously, pork production contraction started as low prices drove inefficient producers out of business. It is expected that production will continue to drop in 2017 pushing prices up and depressing consumption demand. Overall demand for red meats will likely remain depressed due to low incomes in 2017.

Ukraine will continue to be a significant exporter of live bovine animals and beef to its neighboring countries as domestic demand for this expensive protein stays low. The Ukrainian currency stabilized in 2016, despite modest devaluation at the end of the year. The devaluation's impact as an export-promoting factor decreased significantly in comparison with 2014-15. Exports of pork will grow as new markets are discovered, however continued spread of ASF is likely to undermine this growth.

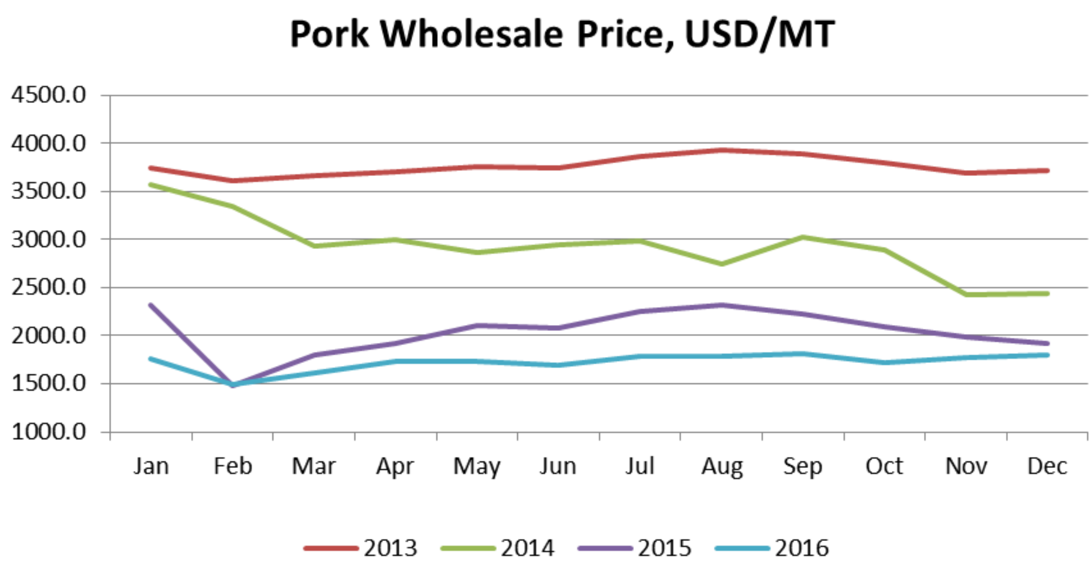
The number of new ASF cases grew significantly in 2016. The situation will likely continue in 2017 as basic biosecurity practices in the household sector remain largely ignored. Reported attempts to hide ASF cases, slaughter sick animals, hide pigs and move them to neighboring villages stymied efforts to eliminate outbreaks.

**Production**

Pork production remained depressed due to plummeting domestic demand and export market closures. Less efficient enterprises were unable to maintain production and slaughtered animals, lowering domestic market pork prices to all-time lows. The additional pig slaughter resulted in increased pork supply and consumption. Over time, increased market exit by small producers led to some price recovery toward the end of 2016. The pork market will be approaching a new equilibrium in 2017 as supply stabilizes. Slaughter will likely remain relatively high.

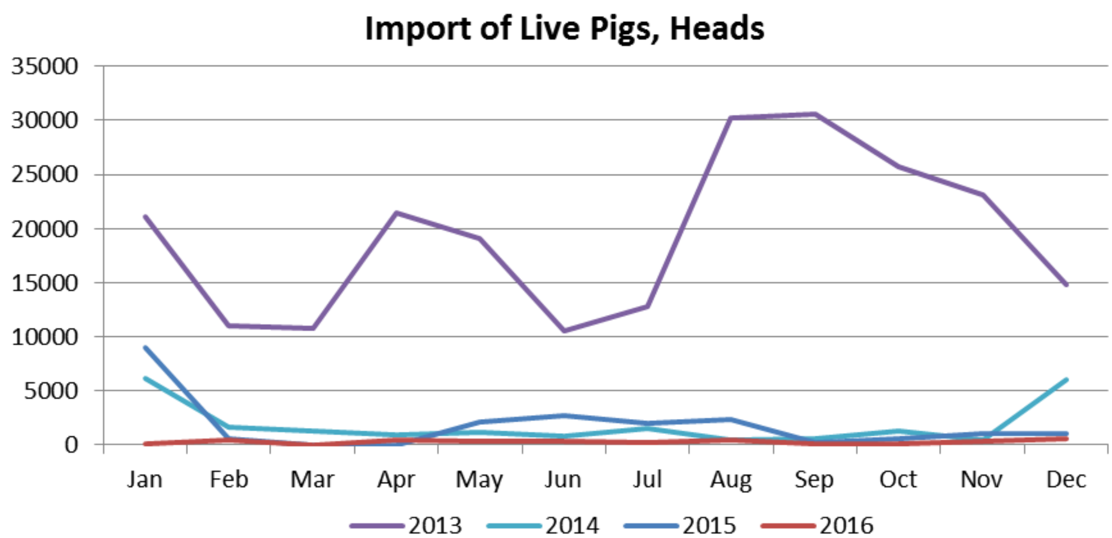
The major factor influencing production will remain ASF spread. The situation worsened throughout 2016 with multiple new cases discovered in households and among the wild pig population all over the country. ASF outbreak frequency increased greatly. In early spring of 2017 one new ASF case was registered at least weekly or more often. The total number of outbreaks reached 199 and continued to climb: 16 cases were registered in 2014, 40 in 2015 and 91 in 2016. Households with primitive animal husbandry and biosecurity practices were the most vulnerable to the disease. Forecasts regarding further ASF spread by the State Food Safety and Consumer Protection Service suggest the problem will continue to increase.

No major industrial pork producer was impacted by ASF in 2016. However, presence of ASF in households within close proximity to large industrial farms may result in economically devastating results for those industrial producers. In some cases, industrial farms may fall within the Ukrainian authorities' targeted eradication zones and thereby lose all their animals despite high biosecurity standards in place. Many industrial producers tightened their biosecurity practices through personnel training and new equipment purchases. Some tried to mitigate risks from households by buying-out backyard pigs within their proximity. Some went further by providing workers and neighboring households with free monthly pork deliveries to discourage household production.



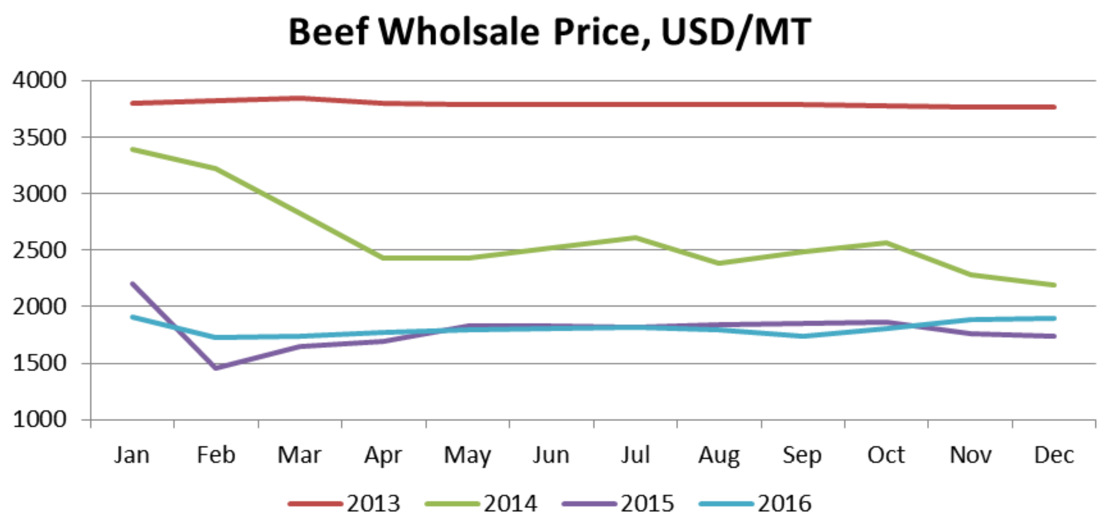

*Source: State Statistics Committee of Ukraine, National Bank of Ukraine, FAS/Kyiv*

Imports of live pigs for fattening remains a good indicator of production perspectives. In 2016 the import fell to an all-time low. Ukraine imported only very limited number of pigs necessary for breeding support.



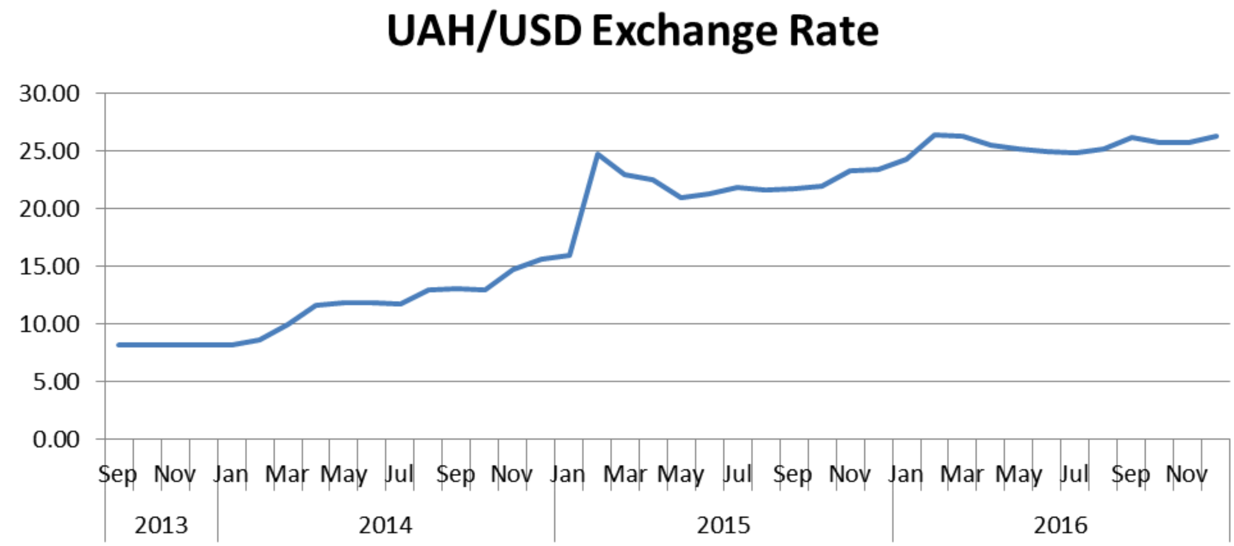

*Source: Global Trade Atlas*

Ukrainian beef production remains to be a function of milk production and prices. Beef prices stabilized in 2016 following discovery of new foreign markets for Ukrainian beef. The situation in 2017 is expected to remain the same if the beef market in Belarus remains open, beef prices will likely continue to recover.




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

Domestic currency is stabilizing as the National Bank of Ukraine imposes prudent controls on the banking and financial sectors. Export growth due to currency devaluation is over and the only significant factor pushing Ukrainian red meat out of the country remains low disposable incomes of the domestic population relative to those of export destinations. In 2016, real wages stabilized with a very modest positive outlook for 2017.




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

**Consumption**

Consumption of red meat products will depend on real disposable income changes. However, in 2016 export market access became one of the major factors influencing pork and beef consumption:

- Excess pork supply and low prices resulted in increased consumption despite low incomes. Pork prices became competitive with poultry meat resulting in a notable poultry consumption drop.

- Beef remained overly expensive for the majority of Ukrainian consumers. Access to new markets for Ukrainian beef in 2016 facilitated a further consumption drop.

**Trade**

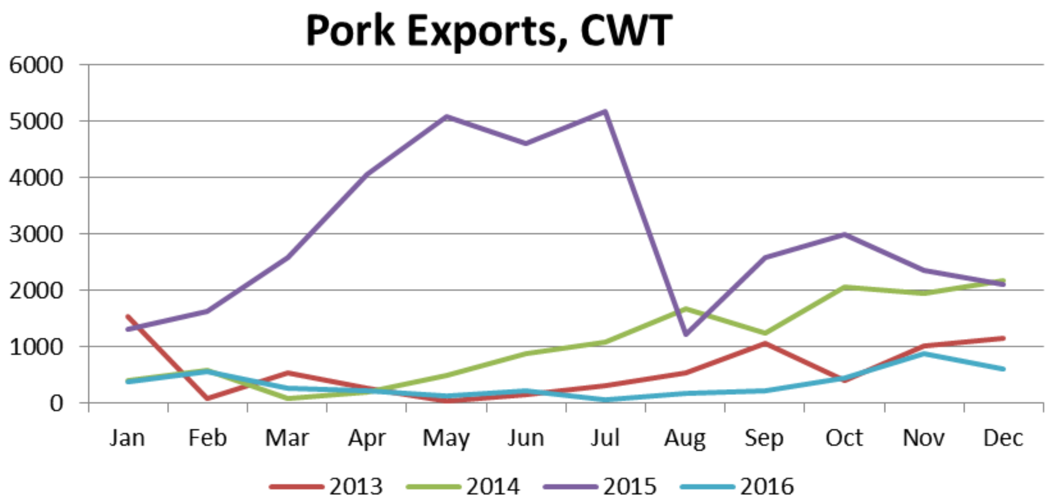
*Exports*

The major development impacting trade in red meat products was closure of the Russian market starting January 1st 2016.

The vast majority of Ukrainian red meat exports were going to Russia despite significant political tensions between the two countries. Restrictive import policies toward the rest of the world increased Russian domestic prices for red meats, making it very attractive for Ukrainian producers. Starting January 1st 2016, Russia introduced a trade ban for a variety of Ukrainian products including beef and pork following implementation of Ukraine's Deep and Comprehensive Free Trade Area (DCFTA) with EU.

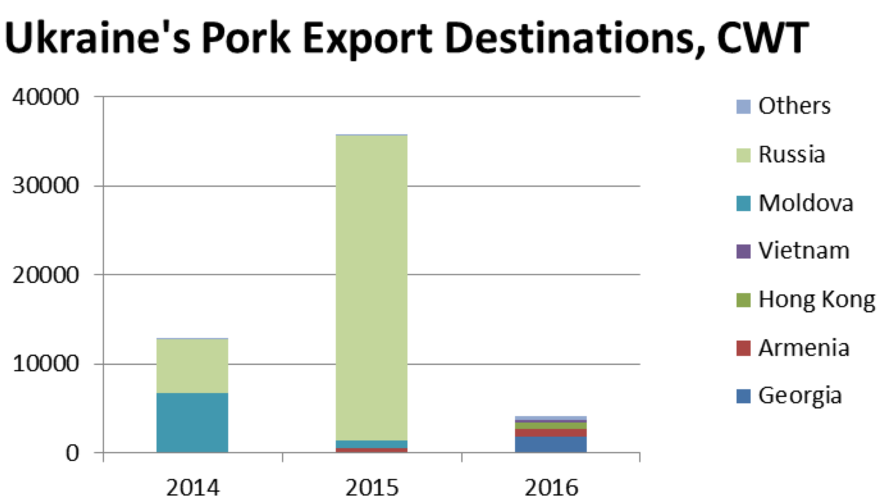
Pork

The Russian market closure led to a significant drop in pork exports as the industry attempted to find and enter new markets. African Swine Fever became the major export trade barrier. It was registered in 23 different Ukrainian regions (out of 24) including those with large commercial and household swine populations. It would be difficult to use a veterinary regionalization approach 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.




*Source: Global Trade Atlas*

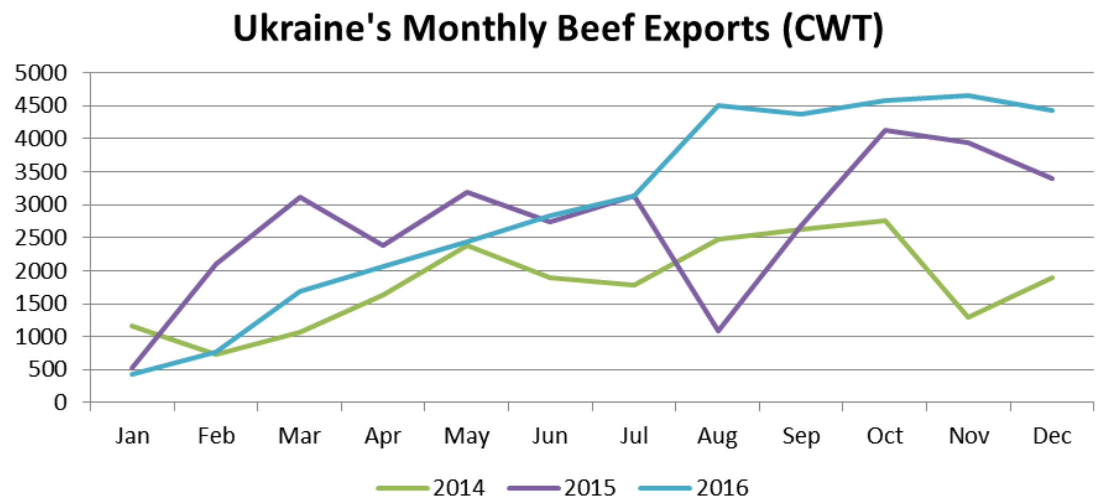
Despite veterinary problems, Ukraine was able to ship pork to the country of Georgia, Armenia and even Hong Kong. However the new markets are small and cannot compensate for loss of the Russian market. Access to Moldova's market remained restricted from May to December of 2016. In this period of time Moldova maintained import TRQs for Ukrainian meat and dairy products.



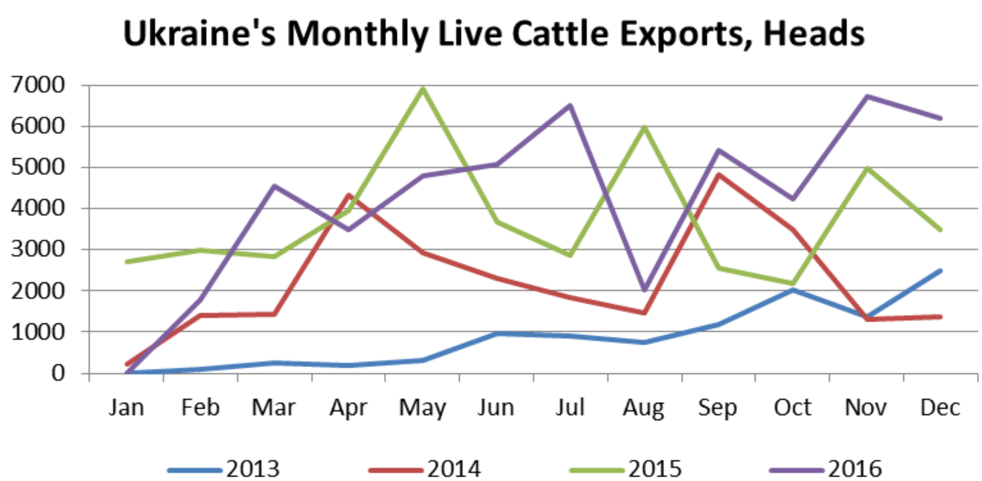

*Source: Global Trade Atlas*

Beef

Unlike the situation for pork, Ukrainian producers quickly replaced the Russian market for beef exports. Domestic consumers were not able to sustain the same consumption levels, thus exports increased significantly. Ukrainian cattlemen also discovered good markets for live cattle in Egypt, Azerbaijan and Lebanon, competing with Ukrainian beef exporters. This competition led to some beef price increases toward the 2016 yearend. Exports of beef and live cattle have been all-time high. The situation is expected to persist in 2017, although domestic demand could potentially rebound after disposable incomes recover.

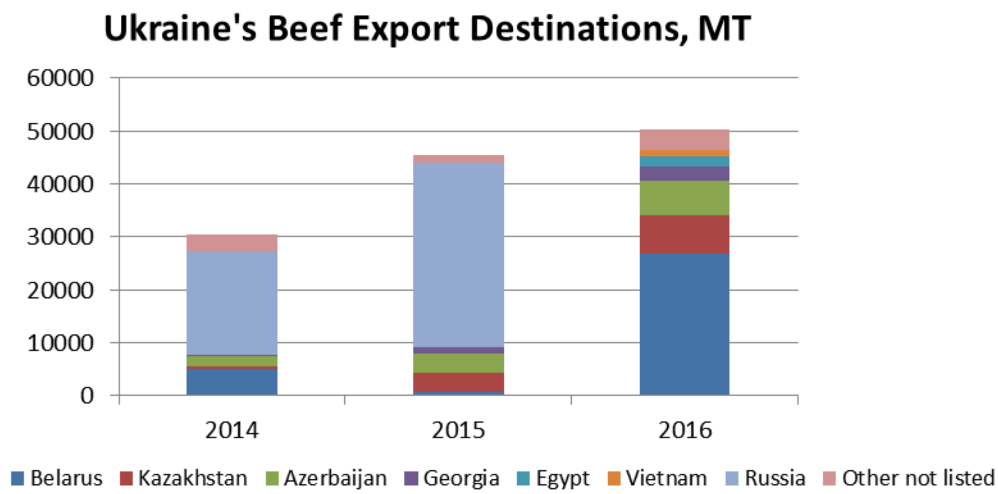



*Source: Global Trade Atlas*




*Source: Global Trade Atlas*

Russia’s beef market closure led to an export phenomenon whereby neighboring Belarus suddenly became the largest importer of Ukrainian beef. Exports of 19.2 TMT in 2016 established the all-time record.




*Source: Global Trade Atlas*

Belarus and Russia are Custom Union members and enjoy benefits of free trade between the countries. Although Russia bans Ukrainian beef on its own market, nothing interrupts Ukrainian shipments to Belarus, where it replaces local beef that can be exported elsewhere.

***Imports***

Imports have been low in 2016 due to low disposable incomes. No significant import recovery is expected through the end of 2017 due to excess supplies of both beef and pork, and slow income recovery.

Imports of pork in 2016 were the lowest in last 15 years. Excess supply of domestically produced pork made them unprofitable. Only a minimal import increase is forecast for 2017.

Imports of beef will be limited to the upper market segment. Steak restaurants, hotels and upper level retailers will be the major consumers. The U.S. is likely to maintain a small market share in the premium segment. The imported quantity is not big and is not likely to exceed 100MT, although per unit price is very high.

**Section II Statistical Tables ***

| Animal Numbers, Cattle<br>Market Begin Year<br>Ukraine | 2015 | | 2016 | | 2017 | |
|---|---|---|---|---|---|---|
| | Jan 2015 | | Jan 2016 | | Jan 2017 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Total Cattle Beg. Stocks | 3996 | 3996 | 3875 | 3861 | 3780 | 3791 |
| Dairy Cows Beg. Stocks | 2321 | 2321 | 2226 | 2226 | 2170 | 2170 |
| Beef Cows Beg. Stocks | 28 | 28 | 24 | 24 | 22 | 22 |
| Production (Calf Crop) | 2251 | 2251 | 2160 | 2160 | 2080 | 2080 |
| Total Imports | 1 | 1 | 2 | 3 | 2 | 2 |
| Total Supply | 6248 | 6248 | 6037 | 6024 | 5862 | 5873 |
| Total Exports | 45 | 45 | 40 | 51 | 40 | 65 |
| Cow Slaughter | 0 | 0 | 0 | 0 | 0 | 0 |
| Calf Slaughter | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Slaughter | 2291 | 2305 | 2177 | 2147 | 2092 | 2075 |
| Total Slaughter | 2291 | 2305 | 2177 | 2147 | 2092 | 2075 |
| Loss | 37 | 37 | 40 | 35 | 40 | 33 |
| Ending Inventories | 3875 | 3861 | 3780 | 3791 | 3690 | 3700 |
| Total Distribution | 6248 | 6248 | 6037 | 6024 | 5862 | 5873 |

**Not Official USDA Data*

| Animal Numbers, Swine<br>Market Begin Year<br>Ukraine | 2015 | | 2016 | | 2017 | |
|---|---|---|---|---|---|---|
| | Jan 2015 | | Jan 2016 | | Jan 2017 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Total Beginning Stocks | 7492 | 7492 | 7231 | 7240 | 7100 | 6836 |
| Sow Beginning Stocks | 488 | 488 | 535 | 480 | 525 | 470 |
| Production (Pig Crop) | 9624 | 9624 | 10200 | 9500 | 10000 | 9350 |
| Total Imports | 22 | 22 | 3 | 4 | 5 | 6 |
| Total Supply | 17138 | 17138 | 17434 | 16744 | 17105 | 16192 |
| Total Exports | 1 | 1 | 10 | 10 | 5 | 4 |
| Sow Slaughter | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Slaughter | 8953 | 8944 | 9424 | 8998 | 9000 | 8908 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total Slaughter | 8953 | 8944 | 9424 | 8998 | 9000 | 8908 |
| Loss | 953 | 953 | 900 | 900 | 900 | 880 |
| Ending Inventories | 7231 | 7240 | 7100 | 6836 | 7200 | 6400 |
| Total Distribution | 17138 | 17138 | 17434 | 16744 | 17105 | 16192 |

*Not Official USDA Data

| Meat, Beef and Veal | 2015 | | 2016 | | 2017 | |
|---|---|---|---|---|---|---|
| Market Begin Year | Jan 2015 | | Jan 2016 | | Jan 2017 | |
| Ukraine | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Slaughter (Reference) | 2291 | 2305 | 2187 | 2147 | 2092 | 2075 |
| Beginning Stocks | 15 | 15 | 15 | 15 | 15 | 15 |
| Production | 427 | 427 | 405 | 400 | 390 | 390 |
| Total Imports | 2 | 2 | 2 | 2 | 2 | 2 |
| Total Supply | 444 | 444 | 422 | 417 | 407 | 407 |
| Total Exports | 45 | 45 | 30 | 50 | 30 | 60 |
| Human Dom. Consumption | 384 | 384 | 377 | 352 | 362 | 332 |
| Other Use, Losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Dom. Consumption | 384 | 384 | 377 | 352 | 362 | 332 |
| Ending Stocks | 15 | 15 | 15 | 15 | 15 | 15 |
| Total Distribution | 444 | 444 | 422 | 417 | 407 | 407 |

*Not Official USDA Data

| Meat, Swine Market Begin Year | Jan 2015 | | Jan 2016 | | Jan 2017 | |
|---|---|---|---|---|---|---|
| Ukraine | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Slaughter (Reference) | 8953 | 8944 | 9424 | 8998 | 9000 | 8908 |
| Beginning Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | 781 | 781 | 820 | 800 | 790 | 790 |
| Total Imports | 5 | 5 | 6 | 4 | 7 | 5 |
| Total Supply | 786 | 786 | 826 | 804 | 797 | 795 |
| Total Exports | 36 | 36 | 4 | 4 | 5 | 5 |
| Human Dom. Consumption | 750 | 750 | 822 | 800 | 792 | 790 |
| Other Use, Losses | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Dom. Consumption | 750 | 750 | 822 | 800 | 792 | 790 |
| Ending Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Distribution | 786 | 786 | 826 | 804 | 797 | 795 |

*Not Official USDA Data