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Ukraine

Poultry and Products Annual

Report

Approved By:

Dwight Wilder, Agricultural Attaché

Prepared By:

Alexander Tarashevych, Agricultural Specialist

Report Highlights:

Ukraine's poultry production in 2016 is forecast higher than official USDA figures at 1010 TMT, and is expected to increase versus 2015 following a reconstruction of old, and an efficiency increase of existing, production facilities by major vertically-integrated producers. A significant drop in disposable income in 2013-2015 resulted in a demand increase for cheap poultry offal. Exports in 2016 are expected to reach a record-high at 215 TMT, a substantial increase over current USDA official forecasts. Iraq will remain the top export destination by volume, while the EU will remain the most profitable one. In 2017 Ukraine is expected to find a way to utilize the EU's import tariff rate quota for whole birds. Imports are also forecast slightly higher than official USDA forecasts, at 65 TMT.

Data included in this report is not official USDA data. Official USDA data is available at <http://www.fas.usda.gov/psdonline>

Executive Summary

After some slowdown in 2015, Ukraine's poultry production is returning to its upward trend. Production in 2016 is expected to be record-high at 1010 TMT. Production in 2017 is expected to continue the growth, boosted by low feed grain prices from 2015/16 MY grain crop. In 2016 many large producers invested in production expansion and upgrades of existing facilities. The domestic industry continued to be very concentrated, with the top-6 broiler producers controlling over 93 percent of the market. The largest Ukrainian producer has significant market power with approximately 61 percent of total production. Smaller producers with 3-12 percent market share either held steady or were able to increase their production and efficiency in 2016. However, the market share of the smallest producers continues to shrink.

Meat protein consumption in Ukraine suffered significantly due to disposable income drop in 2013-2015. Since it is already the cheapest protein, consumers had no option to substitute for poultry. As such, demand volume remained stable, but value dropped notably. Domestic industry exhibited little willingness to satisfy domestic demand preferring export markets in the Middle East, EU and Africa, even as cheap offal suppliers from Poland and Germany filled the gap in the domestic market. Importers were quick to acquire the EU's zero import duties export TRQs for Ukrainian market. The 2016 import level is expected to reach the 2013 level. Imports in 2017 are expected to be somewhat lower as incomes recover, allowing consumers to resume consumption of other, higher-value sources of protein.

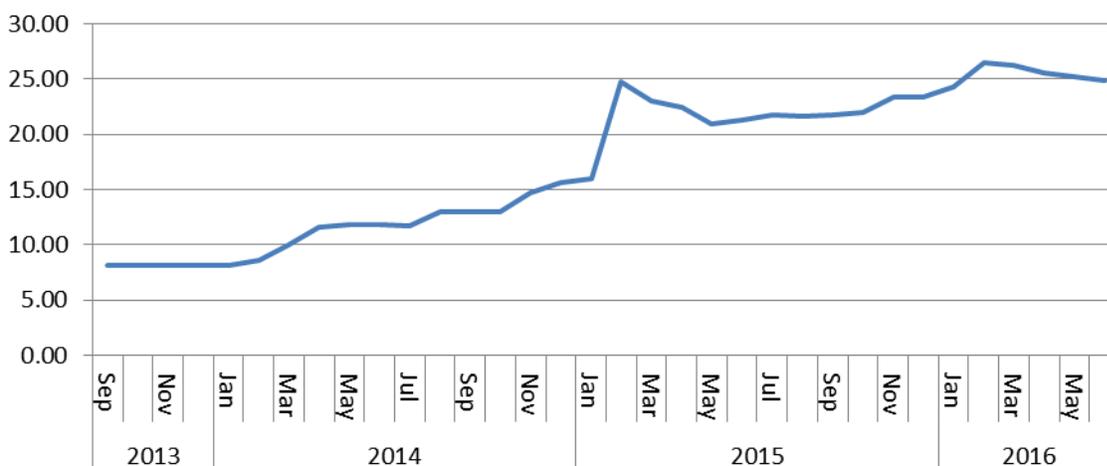
Ukrainian poultry exports are expected to reach an all-time high putting Ukraine in the world's top 15 exporters. Export markets are diversified, with the Middle East responsible for one third of all exports. The largest Ukrainian producer, MHP, have opened a processing facility in the Netherlands in an attempt to utilize EU's import TRQ for whole birds. Thanks to investments such as these, Ukraine's exports to its most stable and lucrative market in the EU are expected to grow in 2016-17. A major attempt was made to develop markets in Africa, with some success as small-scale exports to Africa have commenced, and are expected to grow in the future. Exports to Former Soviet Union (FSU) markets developed in Central Asia will decline due to Russia's transshipment restriction that were [introduced](#) in January of 2016 and got stricter in the June. Exports to Russia are impossible due to import ban.

Production

Ukrainian economic stabilization in late 2015-16 has had a positive impact on poultry production. Producers were able to secure uninterrupted imports of inputs (hatching eggs, veterinary drugs, spare parts and equipment). Macroeconomic stabilization in 2016 (International Monetary Fund expects 1.5 percent real GDP growth and 13 percent inflation) had a positive impact on producers' cash flows and allowed for some resumption of financing. Stabilization also reduced uncertainty over finance availability, domestic prices, and consumer demand for the first time in last 3 years, allowing producers to plan and manage more efficiently.

Ukrainian currency reached stability and even appreciated a bit in February-March of 2016. Only modest currency depreciation is expected toward the 2016 year-end. Ukrainian producers will no longer possess competitive advantage in a form of shrinking cost that is fixed in local currency while export contracts are fixed in hard foreign currency.

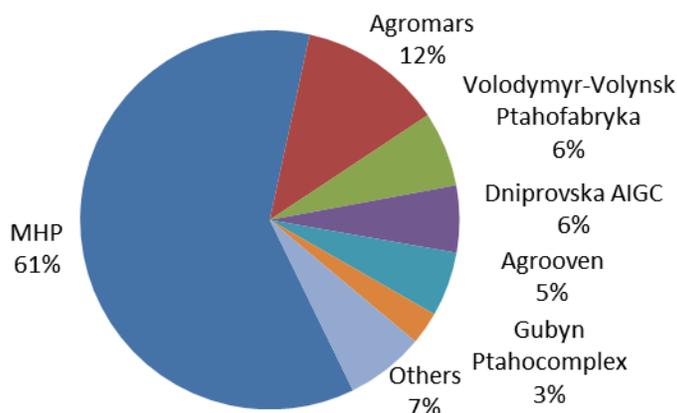
UAH/USD Exchange Rate



Source: National Bank of Ukraine, FAS/Kyiv calculations

The rough period in the market during 2013-2015 had a significant negative impact on small broiler producers. Many of them had to stop production completely. Market concentration moved to a new level with the top 6 producers responsible for over 93 percent of the market. The position of the largest poultry producer, MHP, improved still further as its market share exceeded 60 percent. The company’s significant market power arising from this large share has never caused official concern. Mid-size producers were also able to maintain their market shares or even grow as MHP focused on expansion in foreign markets.

Major Ukrainian Poultry Producers in 2015



Source: Latifundist website by Ukrainian Poultry Union

The production forecast for 2016 was improved as many poultry producers, including MHP, declared production increases. This rise is expected to continue into 2017. No growth space is left on the domestic market however, so all additionally produced poultry will end up on the world markets.

Major Producers

Myronivsky Hliboproduct (MHP) remains the largest poultry producer in the country representing over 60 percent of industrial poultry production in 2015. This vertically integrated company produces grains, soy and sunflower protein, hatching eggs, and broilers. Total production area in 2016 exceeds 350,000 hectares. It has its own elevators, feed mills, slaughterhouses, meat processing plants and distribution centers. The company sells poultry to retailers and also markets its product directly via a company-owned franchising network serviced by a company-owned truck fleet with 15 distribution centers nationwide. According to company's semiannual report, poultry production grew by 10 percent (to 305.5 TMT). The company exported over 28 percent of produced poultry meat and controls over three quarters of Ukrainian poultry exports.

Agromars remains the second largest poultry producer in Ukraine, as it has been for a number of years. Over time the company has not able to increase its market share. Production of this large vertically integrated company is concentrated mostly in northern-central Ukraine. The company has recently completed USD 35 million of upgrades at one of its eastern production sites. It is expected to increase its production and market share in 2016-17. Some of Agromars production facilities are EU-approved.

There are four mid-sized poultry producers in Ukraine that account for over 20 percent of total production: Volodymyr-Volynska Ptahofabryka, Dniprovskaya Agro-Industrial Group of Companies, Agro-Oven, and Gubin Ptahocomplex. These producers were able to maintain or increase their production in 2015-16. Vertical integration and reliance on local input suppliers allowed them to survive recent market turbulence. Financial support from the owners also played important role. Poultry production by mid-sized producers is expected to remain steady, but their sales are likely to concentrate on domestic regional markets.

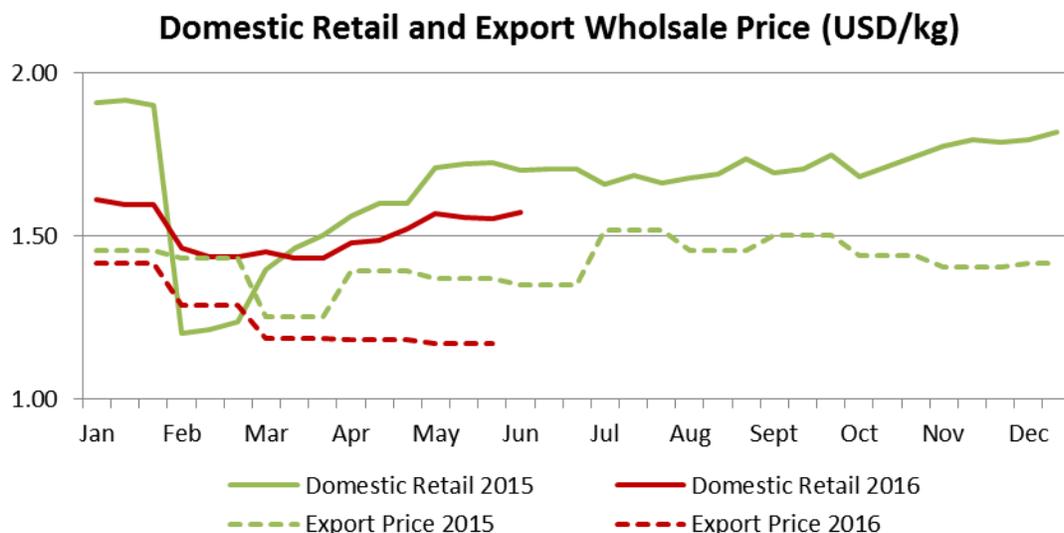
Market share held by other small poultry producers has decreased from 12 to 7 percent over the last 3 years. Many producers with 0.5-2 percent market share were unable to maintain production. Over time small scale production is expected to shrink even further.

Consumption

Broiler meat consumption is expected to remain stable in 2016 and 2017 at 860,000 MT.

Poultry meat is the least expensive protein in the diet, but little domestic economic space remains to increase consumption further. The abrupt economic drop of 2013-15 has been replaced by shaky stabilization in 2016. The significant domestic currency devaluation resulted in an income drop and consumption shift toward cheaper offal. The domestic industry was not able to supply enough offal, creating space for imports. This demand was satisfied by EU countries, which were able to keep very low offal prices for exports while maintaining relatively high prices for affluent EU consumers.

USD denominated poultry price remained relatively stable in 2016 although a bit below the 2015 price. Ukrainian poultry producers prefer export markets to domestic ones despite gradual export price decrease in late 2015 - first half of 2016.



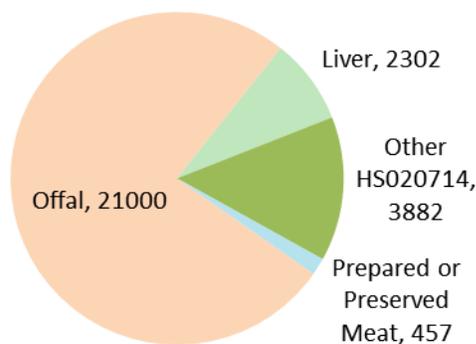
Source: State Statistics Service based on Ministry of Economic Development and Trade Surveys; Monthly Average Interbank Exchange rates used for calculations of 2015/16 prices; WTA data was used for declared export price; USDA definition of poultry was used for export price; no correction for wholesale margins or domestic taxes were made.

Trade

Imports:

The poultry import forecast for 2016 has been increased to 65 TMT. Cheap poultry offal for further processing remained the most traded item. Domestic producers have exhibited no willingness to cover the domestic demand for cheap poultry, preferring exports of whole birds and parts. Due to this preference, imports have increased. Imports in 2017 are expected to be comparable to 2016 ones. As incomes recover, some consumers may begin switching back to poultry cuts of domestic origin, although this effect is likely to be gradual.

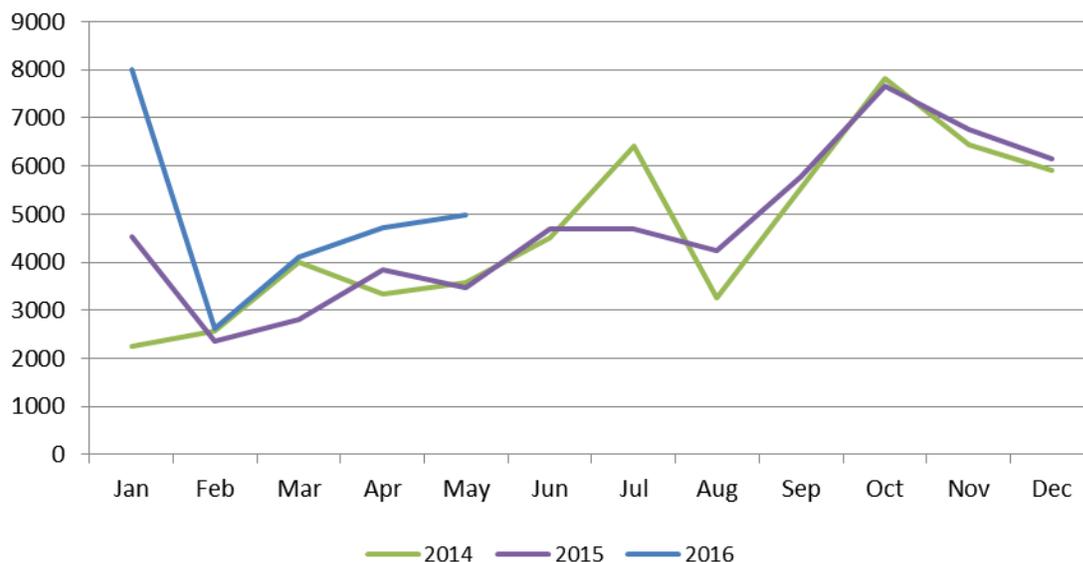
Chicken Meat imports in 2016, by Product (5 months), MT



Source: State Statistic Service of Ukraine via World Trade Atlas; USDA definition of poultry is used

World market prices decreased in early 2016 while domestic price for whole birds and cuts remained relatively stable. Many importers did not expect this significant price drop and suffered losses in January-February of 2016. However, imports resumed their usual pace in March.

Poultry Meat Imports by Months (MT)

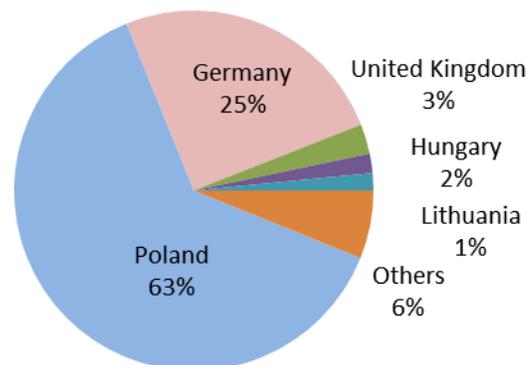


Source: State Statistic Service of Ukraine via Global Trade Atlas;
USDA definition of poultry is used

Ukraine's import TRQs for EU-produced poultry cuts and whole birds became available for Ukrainian importers for the first time in 2016 (see Attachment 2 at the end of this report for details). Ukrainian traders quickly filled the poultry cuts and offal import TRQs. The whole bird TRQ was not (and is not expected to be) fully utilized due to high competition with domestic product.

The Ukrainian domestic poultry market is extremely price-sensitive due to the hard economic situation in the country. In 2016/17 EU suppliers are expected to dominate in the market. Geographic proximity and availability of cheap offal were the two key factors that have led to this EU dominance. EU suppliers were able to separate premium cuts for domestic market and cheap offals for further exports. This made EU supplies very competitive even on the lower-cost Ukrainian market. In 2016, the EU is expected to keep a positive trade balance in poultry products with regards to Ukraine. This situation may start to change in 2017 when Ukrainian producers start utilizing the EU's whole bird TRQ.

Ukraine's Poultry Imports in 2016 (5 months), Percent

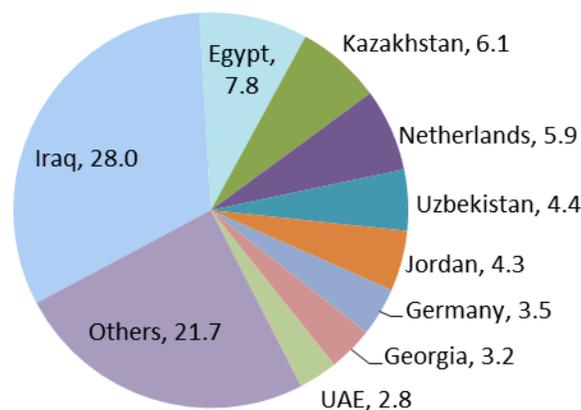


Source: State Statistic Service of Ukraine via World Trade Atlas;
USDA definition of poultry is used

Exports:

Exports of broiler meat are projected to increase to 215 TMT in 2016 and 240 TMT in 2017. Production increases and a stagnant domestic market leave no choice for producers but to sell excess supplies elsewhere. Year-to-date, Middle Eastern countries have become the major destination for Ukrainian poultry, with Iraq responsible for 28 percent of all sales. Iraq and the EU are expected to remain the major destinations for Ukrainian broiler meat in 2016-17. However, Africa markets where Ukrainian producers have begun their expansion may turn out to be the fastest-growing export markets. Industry indicated interest in opening the Saudi Arabian market as well. As of 2016 growing markets in South Africa and Philippines are getting little attention.

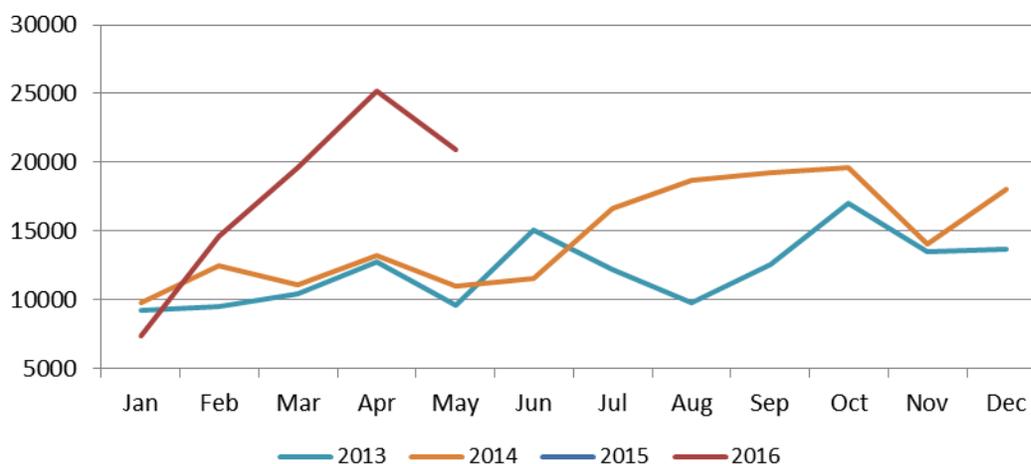
Ukraine's Poultry Export in January-May 2016 TMT



Source: State Statistic Service of Ukraine via Global Trade Atlas;
USDA definition of poultry is used

Exports to Russia are impossible in 2016 due to the trade ban and are not expected to resume in 2017. The controls in place at the administrative border between mainland Ukraine and Crimea now mirror the controls Russia applies at its undisputed borders. No legal trade in poultry is taking place. In this GAIN Report production on the Russia controlled territories of the Autonomous Republic of Crimea is included as Ukrainian internal trade. Furthermore, the importance of Former Soviet Union Central Asian countries is going to diminish due to [transit restrictions](#).

Ukraine's Monthly Poultry Exports (MT)



Source: State Statistic Service of Ukraine via Global Trade Atlas

EU Market Access Tensions

The EU market is well protected by TRQs that were negotiated under the Deep and Comprehensive Free Trade Agreement (DCFTA). Quotas opened for Ukrainian suppliers constitute an insignificant part of total EU imports. The vast majority of Ukraine's poultry exports are directed to 2 major EU poultry processing centers: the Netherlands and Germany.

The largest Ukrainian poultry producer (MHP) is responsible for almost 80 percent of all exports, and the majority of exports to the EU. The company has developed a new [Qualiko](#) brand for its EU market. The brand is to be used for both fresh and processed products.

In previous years, the EU poultry TRQ for Ukrainian whole birds remained unclaimed due to lack of interest from EU-processors for these products. In order to tap this unused TRQ the MHP and their Dutch partner Jan Zadbergen have opened a processing facility in Veenendaal (the Netherlands), which has led to protest by the Dutch Union of Poultry Farmers. Dutch farmers expressed their concern over imports from MHP's "[idiot big chicken factory](#)" producing 332 million chickens annually, while the entire Dutch production is 574 million. They also [expressed concerns](#) over chicken wellbeing, quality of feed and social programs of Ukrainian workers. The producers were also unhappy about "Made in Netherlands" label that will be on chicken products, accusing the MHP of "piggybacking the Dutch poultry." According to Dutch farmers, the production cost of Ukrainian chicken is 40 percent less than the cost in the Netherlands.

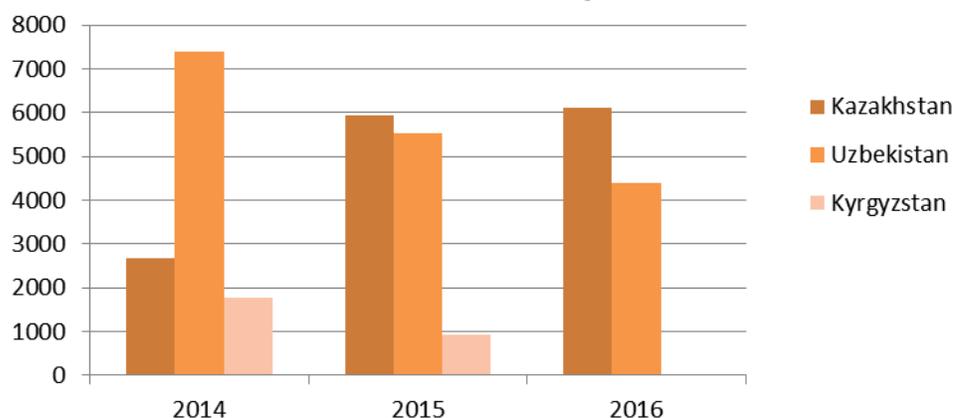
The protests are not expected to impact EU market access for MHP and thus the Ukrainian meat market share in the EU is going to grow through the use of the whole birds TRQ in 2017. According to Dutch sources, the Veenendaal facility's total capacity is 8,000 MT. It is operating in the test mode in 2016 and is being upgraded (presumably to accommodate the Ukrainian whole birds TRQ).

Transit Problems to Central Asian Countries

On January 1st 2016, besides the existing trade ban, Russia introduced a special transshipment regime for Ukrainian products destined for Kazakhstan and Uzbekistan. Later, on July 1st, the list was expanded to include Kyrgyzstan. In late 2015 both Kazakhstan and Belarus refused to join Russia in the cancelation of FTAs with Ukraine and introduction of a trade ban.

Now Ukrainian products destined for Central Asian countries must be transshipped through Belarus. All products must be shipped through designated cross points in sealed containers or railway cars, including GLONASS (Russian GPS) tracking devices. All truck drivers will have to receive special slips when entering the Russian territory and surrender those slips at exit points.

Ukraine's Exports to Central Asian Countries, Jan-May, MT



Source: State Statistic Service of Ukraine via Global Trade Atlas

For the first half of 2016 trade with Central Asia countries remained rather significant as a lot of shipments were entering the market through Kyrgyzstan. This trade opportunity was eliminated on July 1st 2016. Alternative supply routes are somewhat more expensive and their carrying capacity is limited. Poultry trade in 2017 with Central Asian countries is expected to decrease even further.

Attachment 1:**Broiler Meat PSD Table, 1,000 MT***

Poultry, Meat, Broiler 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
Production	955	956	970	1010	1050
Total Imports	57	57	55	65	50
Total Supply	1012	1013	1025	1075	1100
Total Exports	159	159	165	215	240
Human Consumption	853	854	860	860	860
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	853	854	860	860	860
Total Use	1012	1013	1025	1075	1100
Ending Stocks	0	0	0	0	0
Total Distribution	1012	1013	1025	1075	1100

*Not Official USDA Data. Note: Exports of chicken paws (Ukrainian HS 0207149900) to China, Vietnam and Hong Kong are excluded from exports.

Ukraine's Poultry Imports, January-May, MT

Partner Country	Unit	Quantity			% Share			% Change
		2014	2015	2016	2014	2015	2016	2016/2015
World	T	15747	17015	24440	100.00	100.00	100.00	43.64
Poland	T	1697	10473	15343	10.8	61.6	62.8	46.50
Germany	T	6773	4098	6147	43.0	24.1	25.2	50.00
United Kingdom	T	995	707	652	6.3	4.2	2.7	- 7.67
Hungary	T	1309	457	424	8.3	2.7	1.7	- 7.41
Lithuania	T	0	0	382	0.0	0.0	1.6	0.00
Others		4974	1281	1493	31.6	7.5	6.1	n/a

*Not Official USDA Data. USDA definition of poultry is used

Ukraine's Poultry Exports, January-May, MT

Partner Country	Quantity			% Share			% Change
	2014	2015	2016	2014	2015	2016	2016/2015
World	57.6	62.3	87.7	100.00	100.00	100.00	40.90
Iraq	18.7	15.1	28.0	32.5	24.2	31.9	85.15
Egypt	0.5	1.5	7.8	0.9	2.4	8.9	420.15
Kazakhstan	2.7	5.9	6.1	4.6	9.5	7.0	3.04
Netherlands	1.9	5.0	5.9	3.3	8.1	6.8	17.66
Uzbekistan	7.4	5.5	4.4	12.8	8.9	5.0	- 20.76
Jordan	1.5	2.9	4.3	2.7	4.6	5.0	52.13
Germany	0.0	2.6	3.5	0.0	4.2	4.0	32.71
Georgia	3.4	3.0	3.2	6.0	4.9	3.7	6.20
UAE	0.1	2.1	2.8	0.2	3.4	3.2	31.40
Others	21.3	18.5	21.7	37.1	29.8	24.8	n/a

*Not Official USDA Data. USDA definition of poultry is used

Attachment 2: DCFTA Duty-Free Tariff Rate Quotas for Poultry Products

Product	HS Code	For Ukraine's exports to the EU	For EU exports to Ukraine
		MT in CWE	MT in CWE
Poultry: Whole Birds and Poultry Cuts	0207.11.(30-90)	MT/year	MT/year
	0207.12.(10-90)		
	0207.13.(10-20-30-50-60-99)	2014=16000 1/	2014=8000 2/
	0207.14.(10-20-30-50-60-99)	2015=16800 1/	2015=8400 2/
	0207.24.(10-90)	2016=17600	2016=8800
	0207.25.(10-90)	2017=18400	2017=9200
	0207.26.(10-20-30-50-60-70-80-99)	2018=19200	2018=9600
	0207.26.(10-20-30-50-60-70-80-99)	2019=20000	2019=10000
	0207.27.(10-20-30-50-60-70-80-99)		
	0207.32.(15-19-51-59-90)		
	0207.33.(11-19-59-90)		
	0207.35.(11-15-21-23-25-31-41-51-53-61-63-71-79-99)		
	0207.36.(11-15-21-23-31-41-51-53- 61-63-79-90)		
	0210.99.(39)		
	1602.31.(11-19-30-90)		
1602.32.(11-19-30-90)			
1602.39.(21)			
Poultry: Whole Birds	0207.12.(10-90)	MT/year until 2019	MT/year until 2019
		Annual=20,000 1/	Annual=10,000 2/

Source: Annex I-A to Title IV of the Association Agreement

Note: TRQs are administered on a first-come, first-served basis

1/ Unilaterally implemented by the EU in 2014-15

2/ Unimplemented by Ukraine in 2014-15