Date: 9/6/2018

GAIN Report Number: UP1814

Ukraine

Poultry and Products Annual

Report

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Report Highlights:
Ukraine's poultry meat production in 2018-19 is expected to increase as new hatcheries and processing facilities initiate production in 2018 and existing capacities become fully utilized. Although the second largest Ukrainian producer has experienced production difficulties, total domestic production has not been significantly affected. In 2018, the EU will become Ukraine's largest export destination with over 30 percent of Ukraine's exports share. Ukraine's exports to the EU are expected to significantly exceed their EU import quotas. Egypt will drop from its position as a major export destination, while Iraq is expected to regain its position. Domestic poultry consumption will continue to increase only slightly, as incomes grow. Household chicken production will remain stable in 2018-19.

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

Note Regarding Reporting Change:

This report provides chicken meat estimates and forecasts for 2017-2019. The prior broiler meat series has been discontinued and will not be revised or updated in the future.

Official USDA data will be available via the PSD database (http://www.fas.usda.gov/psdonline) on October 11, 2018. The October data release will include the historical chicken meat series back to 1999. The broiler meat series will terminate with 2016 data.

Chicken meat is defined as meat of domestic fowl (*Gallus gallus*/*Gallus domesticus*) including all chickens: broiler, layer, hybrid, domestic breeds, spent hens, ex-breeding stock, etc.

Executive Summary

The Ukrainian industry has recovered from the loss of consumers and facilities in Crimea and Eastern Ukraine. While the domestic market contracted due to the population loss, incomes of the remaining consumers stabilized and grew, notably in 2017-18. For the majority of food products, consumption recovered to 2013 pre-crisis levels.

The stabilization of the political environment has had a positive impact on new poultry production investments. New production facilities initiated operations in mid-2018. Further expansion is expected in 2019, as new poultry houses are populated with birds, and new hatcheries and slaughter lines are fully utilized. Ukraine's domestic industry remains highly concentrated, with the largest producer responsible for over 60 percent of total production and the top seven Ukrainian broiler producers controlling over 90 percent of the market.

Facing a domestic demand that is essentially saturated, Ukrainian producers will increase exports to traditional markets in the EU, the Middle East and Africa. Significant market diversification allows for substantial and stable exports. Trade problems related to political, technical and/or religious issues in Iraq, Egypt, Saudi Arabia and the UAE have had a limited impact on Ukraine's overall exports.

Ukraine's domestic spent hens and household chicken production is included in this GAIN report for the first time. Reporting on this additional poultry has not significantly changed the overall numbers or general trends. Production of spent hens is driven by demand for eggs and does not significantly influence chicken supply and demand. The number of chickens in households in Ukraine is somewhat significant, but subsistence farming prevails with relatively small slaughter numbers. Detailed analysis will be provided in a separate chapter of this report.

Production

The stable economic and investment environment has resulted in the resumption of growth in Ukrainian industrial poultry production. Unable to find additional markets domestically, Ukrainian poultry producers have concentrated on production for foreign markets. The availability and access to those markets will shape Ukraine's poultry industry in 2018-19.

Ukrainian household production is stable and is not subject to significant fluctuation. It is viewed as a low-cost, safety net production that provides cheap protein to rural dwellers. Although a small share of chicken is sold in open-air markets, industrial production and household production do not significantly overlap.

Vertical integration that connects crop and feed production, hatcheries, chicken growing and slaughter became standard for all large and mid-size Ukrainian producers. This vertical approach decreases production risks significantly and brings economies-of-scale benefits, unachievable in small-scale farming. According to industry sources, production costs in Ukraine remain one of the lowest in the world. It is likely to be more efficient than poultry production in Argentina, Thailand or Russia, and comparable to Brazil.

Major Industrial Producers

Myronivsky Hliboproduct (MHP) remains the largest poultry producer in the country, representing over 60 percent of industrial poultry production in 2018. This vertically integrated company produces grains, soy and sunflower protein, processes it in their own feed mills, and produces hatching eggs, and broilers. The company also controls poultry slaughter, processing and distribution. Total crop production area in 2018 will exceed 370,000 hectares. In 2017, the company sold its assets situated on the Russia-controlled Crimean Peninsula. MHP possesses distribution centers in the Middle East and North Africa.

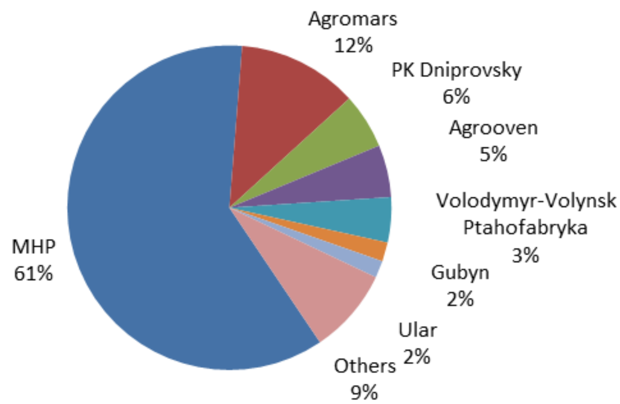
MHP's Vinnitsa project will become the major production site for MHP when all stages are completed and production is launched. In 2018, MHP launched two new facilities investing almost USD 24 million. Thus, production is expected to increase further by the end of 2018 and into 2019.

According to the company's semiannual report, poultry production increased by seven percent to 308 TMT with sales growth by two percent to 288 TMT. Almost half of all poultry produced (9133 TMT) was exported. MHP is using its processing plants in the Netherlands and Slovakia to insure EU market access.

Agromars is the second largest poultry producer in Ukraine. Production of this large vertically integrated company is concentrated mostly in north-central and eastern Ukraine. The company is privately owned and does not share production information. The company recently completed a facility modernization program. Some of Agromars production facilities are EU-approved.

In mid-2018, the company was embroiled in a major scandal regarding improper disposal of waste (poultry feces and deceased chickens). Reportedly, this is not the first time that the company was found neglecting environmental and human health concerns. The situation received significant press coverage and both co-owners of the company were detained and subsequently released on bail. As a result, the owners committed to the construction of proper waste processing facilities, similar to those built by their major rival, MHP. This project is likely to result in a slowdown of the company's production growth as it will require significant financial resources and time for completion.

Production Shares of Major Chicken Meat Producers in 2017, Percent



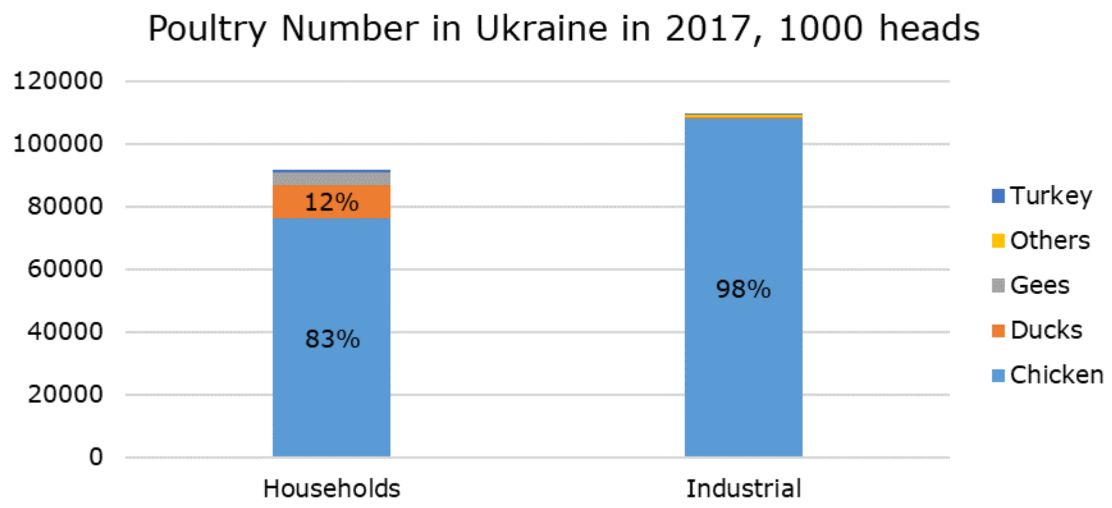
Source: Ukrainian Poultry Union estimates

There are five mid-sized (second-tier) poultry producers in Ukraine that account for 18 percent of total production: Volodymyr-Volynska Ptahofabryka, Dniprovskaya Agro-Industrial Group of Companies, Agro-Oven LLC, Gubin Ptahocomplex and FG Ular. Poultry production at these second-tier facilities remained stable despite competition with MHP and cheap EU imports. Midsize producers export small quantities of poultry products and concentrate on the regional markets in Ukraine.

In this GAIN Report, production in the Russian controlled territories of the Autonomous Republic of Crimea is included as Ukrainian internal production. Poultry production in Crimea is not significant and is expected to decline due to feed shortage and extreme drought in 2018.

Non-broiler Poultry Production Overview

Ukraine's traditional household poultry production is rather significant. The majority of household poultry production is chicken, although it is declining slightly. Duck occupies the second position, with other species of minor importance. Within the majority of households chicken serves a dual-purpose (eggs and meat), although some people prefer specialized breeds and crosses. Egg production is very important, so bird turnover is very slow. Generally, household chicken meat is consumed in-house, with only a small share of chicken meat sold in open-air markets in villages and nearby towns and cities. Some consumers view household chicken as "more natural" and even "organic." The price of homegrown chicken sold in open-air markets is significantly higher than industrial chicken sold in neighboring stalls.

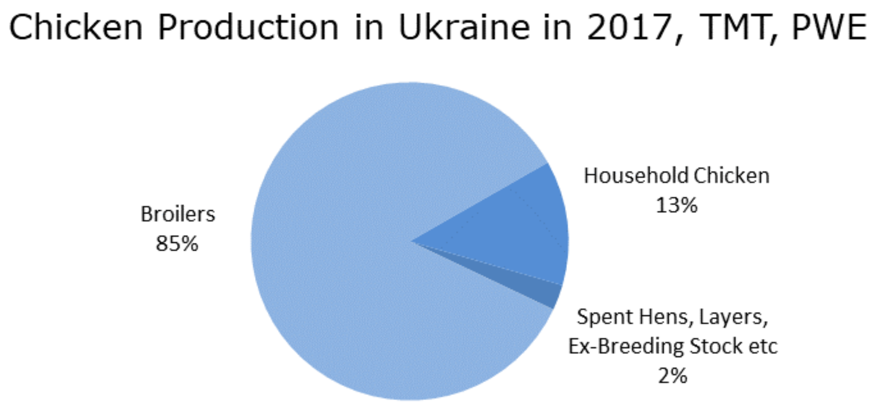


Source: State Statistic Service of Ukraine

Veterinary practices and general management of homegrown poultry remains basic. Feed is provided, but not balanced and chickens supplement throug foraging. Ducks are popular in villages with small pounds, lakes and rivers, where birds spend most of their time. Despite the primitive nature of household poultry production, efficiency is rather high due to a relatively low investment cost. Despite explosive growth of industrial chicken production, rural dwellers are reluctant to replace homegrown birds with industrially-produced birds. Incomes, habit, traditions, belief in "natural" production methods – all contribute to inelastic poultry production and demand. The number of household birds remains stable, with an insignificant decrease over time.

The bulk of industrial production relies on chicken, with turkey and other less popular species occupying only two percent of total production. Traditionally chicken meat is the most popular protein to produce. It is also the cheapest meat. For the average, not-so-affluent, Ukrainian consumers, price is the most important factor, outweighing both dietary and health concerns.

Reliable statistics are available only for recent years, but indicate that household chicken occupies only a small share of total Ukrainian production, despite the large quantity produced. The combined share of non-broiler production is only 15 percent. This share has remained stable over the last two decades and has had a limited impact on the quickly-growing industrial broiler production.



Source: State Statistic Service of Ukraine, FAS/Kyiv calculations

Subsistence chicken production was maintained at a level that insured a "safety net" for rural dwellers. It could not compete with industrial production in retail, but it is not subject to contraction either.

Disease Situation

No Highly Pathogenic Avian Influenza (HPAI) outbreaks were registered in Ukraine since 2016. Ukrainian food safety authorities have developed compartments some of which may maintain AI-free status in case of outbreak. This insures uninterrupted supplies of poultry in the future in case of possible HPAI spread in Southern Ukraine where many birds' migration routes cross.

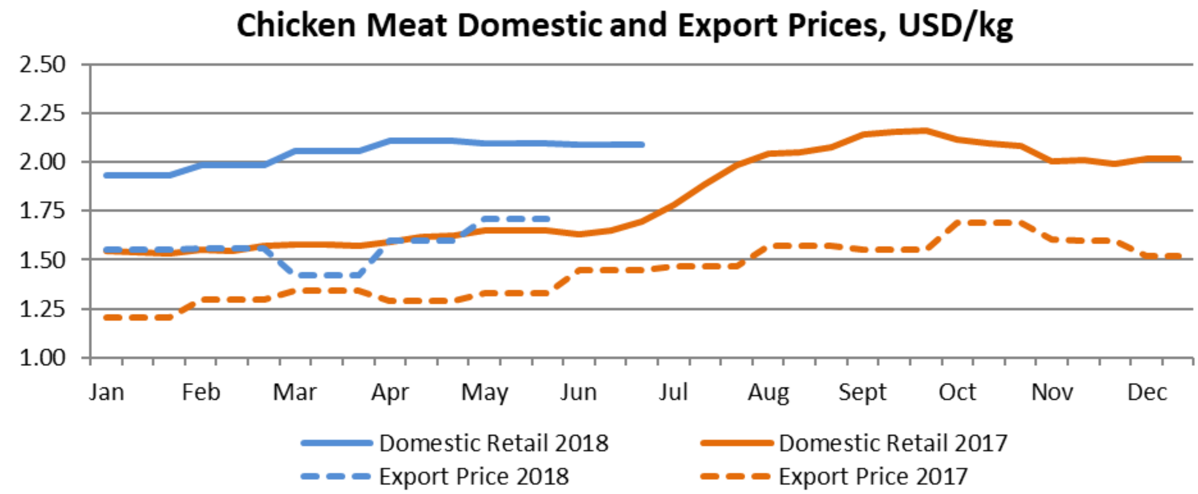
Consumption

In 2018, growth in domestic chicken consumption is expected to remain flat, largely due to only modest income growth. Domestic demand is completely fulfilled by domestic industry production. Moreover, there is no prospect for domestic demand growth to spur production growth. Expectations for 2019 are that this limited growth is likely to continue.

Ukraine remains a low-income country with consumer preferences leaning toward cheaper cuts and offal. The domestic industry is not able to satisfy this demand for cheaper cuts and utilizes better marketing opportunities by exporting the majority of higher value poultry cuts to foreign markets. The Ukrainian consumer's demand for cheaper poultry cuts and offal is filled through imports from
European suppliers.

In March 2017, Ukraine stopped trading with areas in Eastern Ukraine, not under GOU-control. This region has a population nearing 3 million. Ukrainian official data does not account for consumption in these territories.

Following the world trend, USD-denominated domestic poultry prices grew significantly in 2017 and remained high in early 2018. Nevertheless, poultry remains the cheapest protein available to Ukrainian consumers.



Source: State Statistics Service based on Ministry of Economic Development and Trade Surveys; Monthly Average Interbank Exchange rates used for calculations of 2017-18 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.

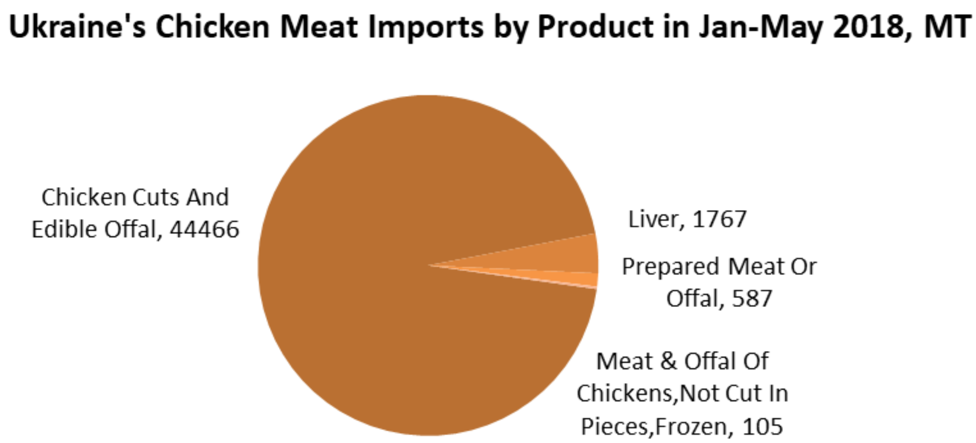
Trade

Ukraine continues to be the major regional exporter of poultry products. As previously detailed, Ukraine exports expensive poultry cuts and whole birds, and partially replaces those exports with imports of cheap poultry offal from EU countries. Ukraine's imports of low-end poultry products enables additional exports to the EU and elsewhere. Low disposable incomes in Ukraine, combined with a traditional consumption structure with emphasis on cheap offal, results in large, simultaneous poultry imports and exports.

Record-high exports are expected in 2018, with further growth projected in 2019. Ukraine will continue to ship poultry to its traditional export markets in the Middle East and North Africa, although Ukrainian exports to these markets will decrease a little in 2018 due to the surge in Ukrainian exports to the EU. Exports to the EU will be significant and well over Ukraine's allocated tariff-rate quota. The top 10 poultry exporters to Ukraine are EU countries. Other exporters are unable to compete with cheap offal of EU origin.

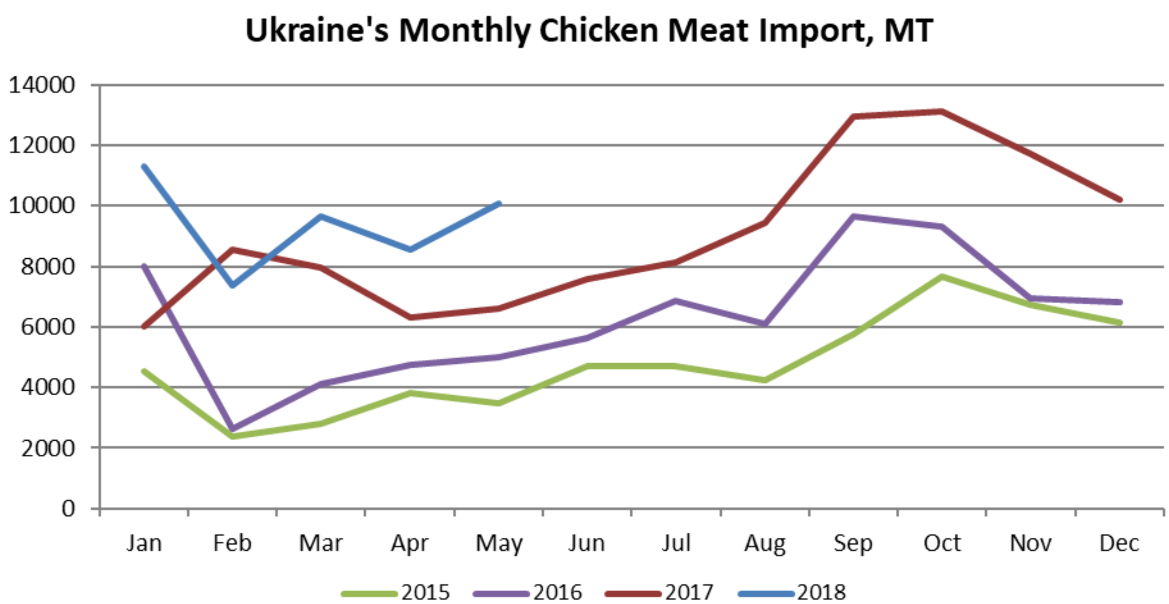
Imports:

In 2018, Ukraine continued to increase imports of cheap offals for further processing. Local producers were unable to satisfy domestic demand. FAS/Kyiv's import estimate was increased once again to reflect this trend in 2018. Imports of offal are likely to slow down in 2019, due to expected production increases leading to an increase in Ukraine's supply of domestically produced offal. Moreover, demand for offal from processing industry has its limits and growing consumer incomes are likely to shift demand toward more expensive products.



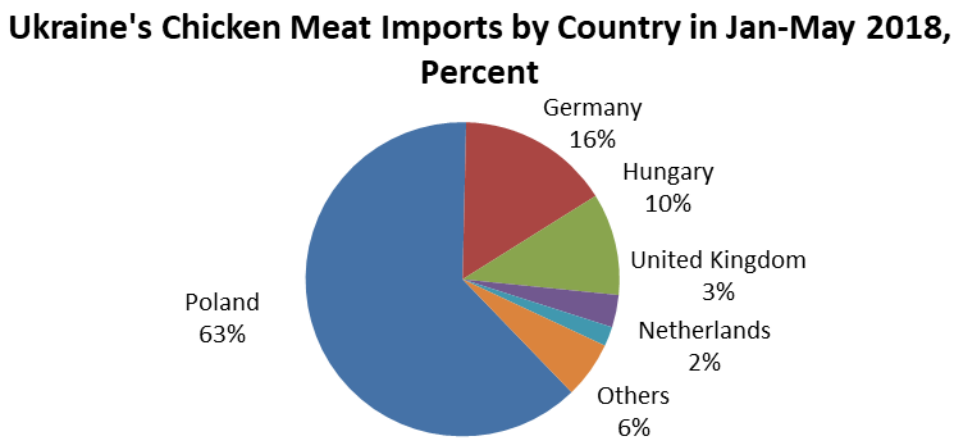
Source: State Statistic Service of Ukraine via World Trade Atlas; USDA definition of poultry is used

January-May imports in 2018 exceeded 2017 levels despite higher world market price.



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

Imports from EU countries dominate the Ukrainian market, with a 99.5 percent market share in 2018. While EU states certainly benefited from the availed Tariff Rate Quota, cheap prices and abundant supplies remained the major factors driving trade. The majority of imports were supplied outside of the quota. The whole-bird TRQ was not utilized due to high competition with domestically-produced products. A detailed analysis of the EU-Ukraine trade is provided in a separate chapter below.



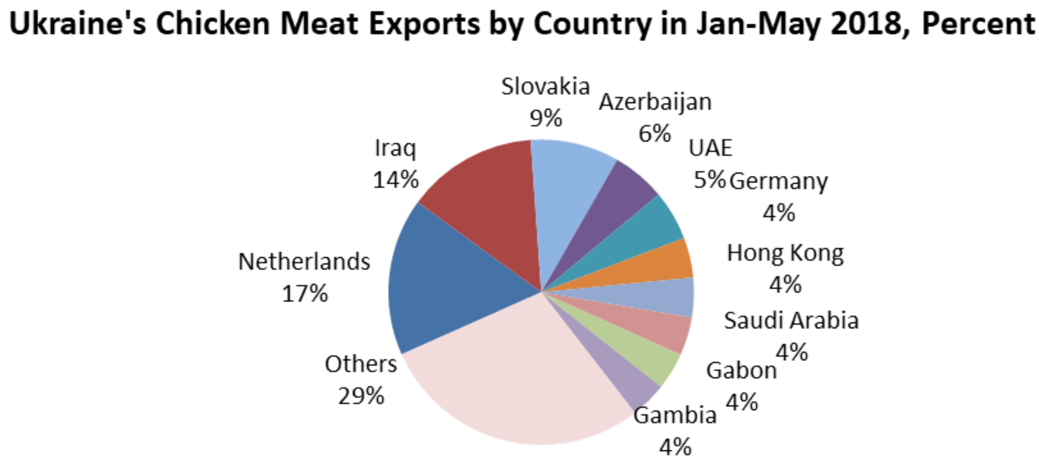
Source: State Statistic Service of Ukraine via World Trade Atlas; USDA definition of poultry is used

Ukraine maintains a trade ban for all Russian poultry products. No official imports are recorded by Ukrainian authorities on government controlled territory.

Exports:

Exports to the EU grew to a significant share, 35 percent, of total Ukrainian poultry exports in 2018. This situation is expected to continue into 2019, assuming no change in Ukraine's access to the EU market. Ukraine discovered new poultry markets in Spain and Bulgaria, although so far test shipments have remained small. The Netherlands and Slovakia have become major EU destinations. A detailed overview of Ukraine-EU trade is provided in a separate chapter.

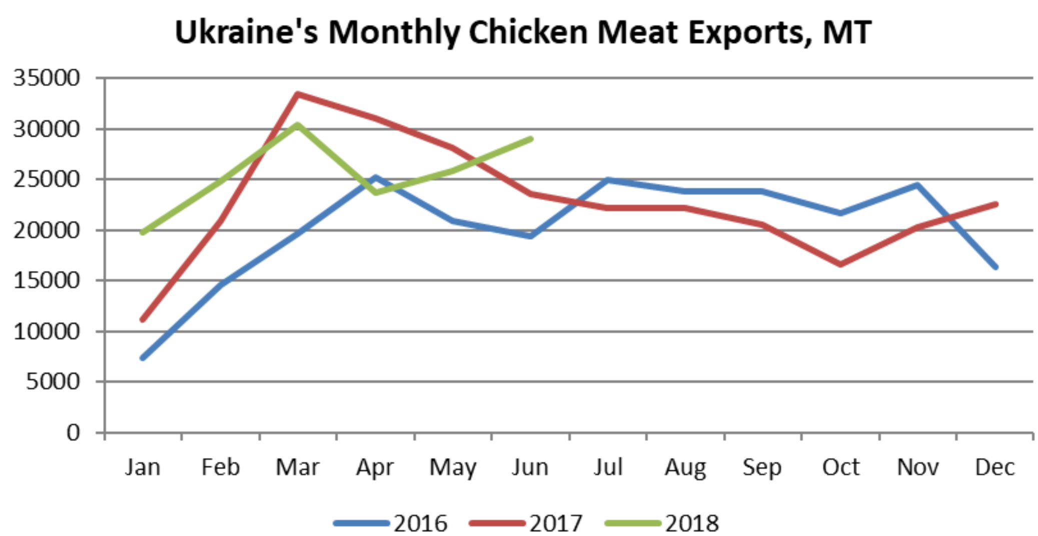
Due to the surge of Ukrainian exports to the EU, exports to African and Middle Eastern countries decreased. The EU is preferred to other export destinations due to its size, reliability, geographic proximity and demand for premium parts. Ukraine's exports to Saudi Arabia (from all four approved facilities) were halted as of May, 2018 due to new Saudi import requirements that do not allow for electrical stunning of chicken prior to slaughter. The same rule is in place in UAE, where one of MHP's trade distribution centers is located.



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

Given efficient, low-cost production, Ukrainian exports of both whole bird and poultry parts were competitive. Whole birds are exported predominately to Persian Gulf countries and to the Netherlands for further processing. Chicken parts are supplied to many markets in Asia, Africa and Europe. Ukraine quickly builds up supplies of chilled products. Due to geographical proximity, chilled parts (HS 020713) are exported to Slovakia, the Netherlands, Germany and some other EU countries.

In 2018, Ukraine exported chicken feet to Vietnam and Hong Kong. Export/import data in the PSD table were adjusted to exclude these products.

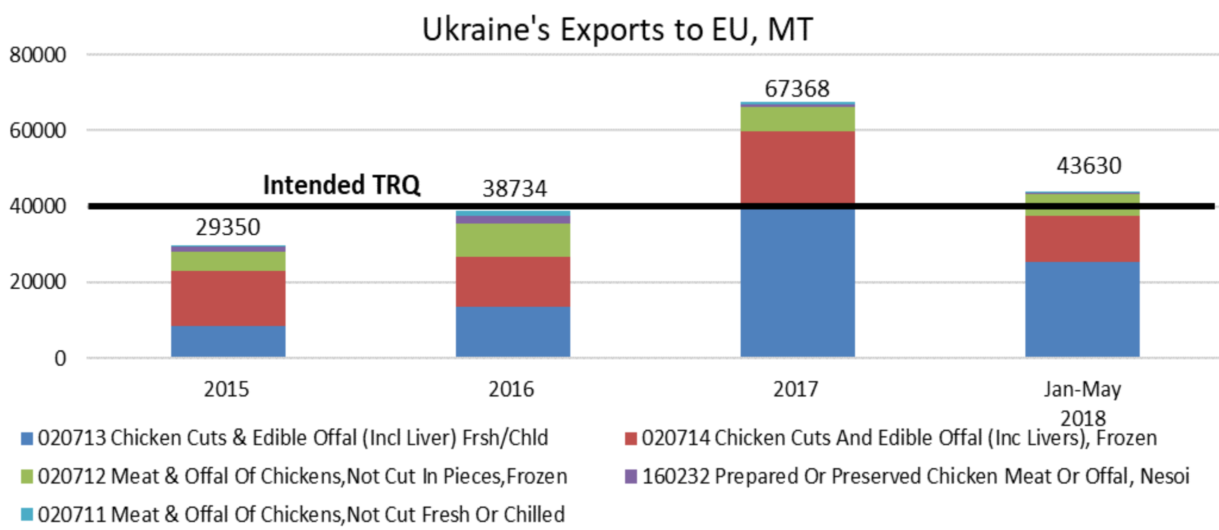


Source: State Statistic Service of Ukraine via Global Trade Atlas

Exports to Russia have been banned since 2016 and are not expected to resume any time soon. Transit problems to Central Asian Countries through Russian territory continued, leading to a significant decrease in exports to these destinations. Exports to Kazakhstan and Uzbekistan have nearly disappeared, while exports to Kyrgyzstan are depressed. Although Ukraine opened a WTO dispute against Russia's transit restrictions, the case is yet to be reviewed and settled.

Trade with the EU

Ukrainian exports to lucrative EU markets skyrocketed in 2017, significantly exceeding the intended Tariff Rate Quota (TRQ) size of 40 TMT (whole chicken and chicken cuts). This has created confusion over Ukraine's growing market share and the perspective that Ukraine has unrestricted exports to the EU. Ukraine was able to supply significant additional quantities of poultry cuts while Ukraine's TRQ for whole birds remained underutilized.



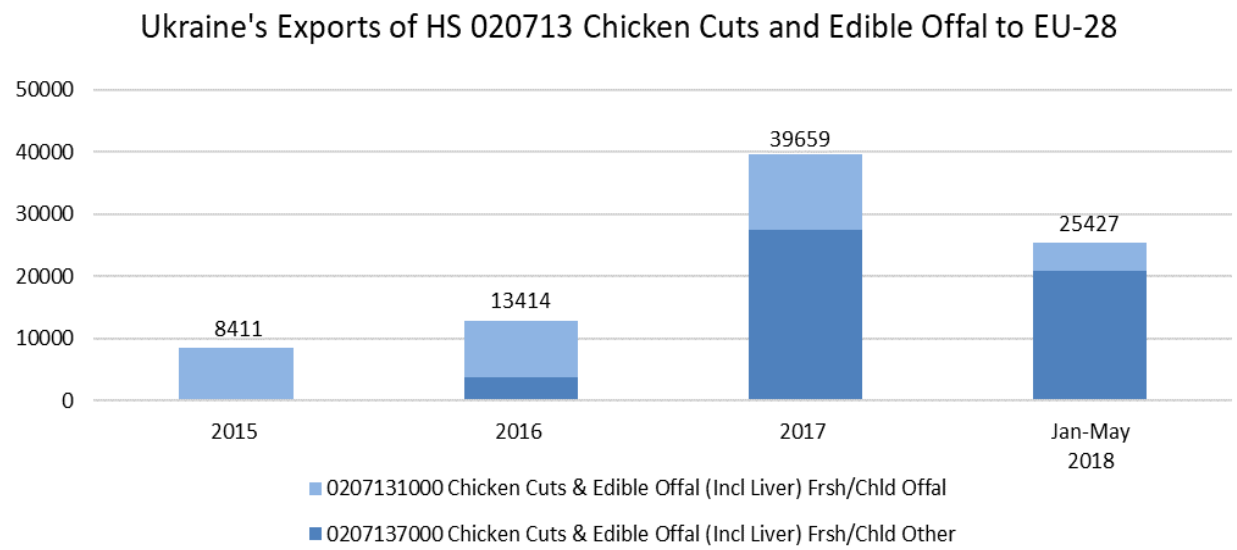
Source: Global Trade Atlas, EU Commission, FA/Kyiv calculations

As a result of the Deep and Comprehensive Free Trade Area (DCFTA) negotiations in 2014, Ukraine received both poultry cut and whole chicken quotas. The poultry cut quota was established at 16 TMT with an annual increase of 1 TMT, up to 20 TMT. The quota for whole chicken was established at 20 TMT. The intended 40 TMT TRQ is described in Annex I-A to Title IV of the Association Agreement, under which it was established.

However, for reasons that are not clear, the EU allowed quota-free imports of HS020713 bone-in cuts (see page 16th of Annex I-A). Demand for bone-in cuts in the EU market is minimal, so further processing in the EU would be required to arrive at the boneless product that is much-valued in the EU market. To facilitate this transformation, the major Ukrainian producer – MHP, acquired facilities in the Netherlands, and subsequently in Slovakia. At these facilities, the small wing bone is removed and the product is packaged and sold as a product of either the Netherlands or Slovakia. Establishing this production in the EU promotes EU consumers' "food patriotism" and removes the Ukrainian origin of the meat.

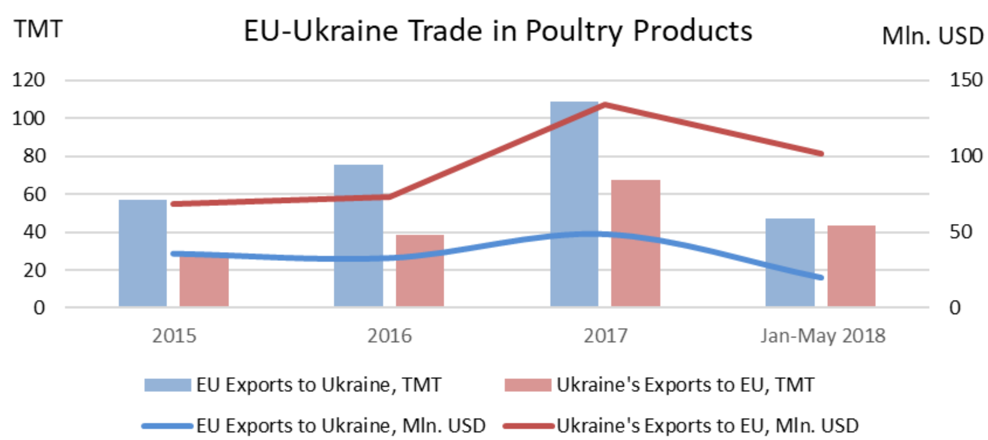
Ukraine's supplies of "other cuts" and "offal" (HS 020713) increased tremendously in 2017, with no sign of slowing down in 2018. In the absence of new restrictions, it is anticipated that Ukraine's share of the EU market will continue to grow through the end of 2018. Ukraine's new poultry facilities are expected to initiate production in 2018-19, which will only further exacerbate EU farmers and politicians upset over the surge in Ukrainian poultry imports into the EU (see link above).

In 2018, Ukrainian poultry exports are expected to replace Brazilian products in the EU. This decrease in Brazilian exports is anticipated after the delisting of a number of Brazilian facilities in the spring of 2018. Please refer to EU consolidated report for more information.



Source: Global Trade Atlas

Ukraine's poultry meat exports to the EU, as well as to other destinations, are partially fueled by EU exports to Ukraine. As a result of the Free Trade Agreement between Ukraine and the EU, the EU also received reciprocal poultry TRQs in Ukraine. The EU exports significant quantities of poultry offal to Ukraine, substituting higher quality poultry products of Ukrainian origin in the domestic Ukrainian market. Low-income Ukrainian consumers' demand for the cheaper poultry products is significantly greater than the Ukrainian domestic industry can produce.



Source: Global Trade Atlas

Although the EU exports significant quantities of offal, in value terms, it is less than half of Ukraine’s exports to the EU. In 2018, the quantity of exported to EU and imported from EU poultry is expected to be nearly equivalent, and close to 100 TMT. In value terms, Ukraine’s exports are expected to be five times greater than imports. The EU’s exports to Ukraine offset political arguments aimed at restriction of Ukraine’s exports to EU.

Attachment 1:

Chicken Meat PSD Table, 1,000 MT*

Chicken, Meat Ukraine	2017		2018		2019
	Market Year Begin: Jan 2017		Market Year Begin: Jan 2018		Market Year Begin: Jan 2019
	USDA Official	New Post	USDA Official	New Post	New Post
Production		1,166		1,205	1,290
Total Imports		109		130	110
Total Supply		1,275		1,335	1,400
Total Exports		262		300	350
Human Consumption		1,013		1,035	1,050
Other Use, Losses		0		0	0
Total Dom. Consumption		1,013		1,035	1,050
Total Use		1,275		1,335	1,400
Ending Stocks		0		0	0
Total Distribution		1,275		1,335	1,400

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

Ukraine's Chicken Meat Imports, January-May, MT

	Partner Country	Quantity			% Share			% Change
		2016	2017	2018	2016	2017	2018	2018/2017
	World	24440	35447	46924	100	100	100	32.38
1	Poland	15343	24273	29370	62.78	68.48	62.59	21.00
2	Germany	6147	4401	7381	25.15	12.41	15.73	67.71
3	Hungary	424	1469	4930	1.73	4.15	10.51	235.48
4	United Kingdom	652	1154	1566	2.67	3.26	3.34	35.67
5	Netherlands	321	1746	938	1.31	4.93	2	- 46.28
6	France	382	824	472	1.56	2.32	1.01	- 42.75
7	Denmark	101	290	402	0.41	0.82	0.86	38.50
8	Belgium	200	273	372	0.82	0.77	0.79	36.26
9	Finland	60	99	336	0.25	0.28	0.72	239.93
10	Lithuania	382	510	268	1.56	1.44	0.57	- 47.43
	Others	429	408	889	1.76	1.15	1.89	n/a

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

Ukraine's Chicken Meat Exports, January-May, MT

Partner Country	Quantity			% Share			% Change
	2016	2017	2018	2016	2017	2018	2018/2017
World	87747	124620	124398	100	100	100	- 0.18
Netherlands	5925	15092	20781	6.75	12.11	16.7	37.7
Iraq	27952	8776	17232	31.85	7.04	13.85	96.36
Slovakia	0	1547	11704	0	1.24	9.41	656.81
Azerbaijan	327	11396	7040	0.37	9.14	5.66	- 38.22
UAE	2796	7218	6547	3.19	5.79	5.26	- 9.29
Hong Kong	1938	3878	5281	2.21	3.11	4.25	36.18
Saudi Arabia	0	5233	5204	0	4.2	4.18	- 0.57
Germany	3481	3562	5058	3.97	2.86	4.07	42.02
Gabon	2575	1823	4880	2.93	1.46	3.92	167.67
Gambia	164	493	4792	0.19	0.4	3.85	872.38
Others	42591	65604	35880	48.53	52.65	28.85	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 MT in CWE	For EU exports to Ukraine MT in CWE
Poultry: Whole Birds and Poultry Cuts	0207.11.(30-90) 0207.12.(10-90) 0207.13.(10-20-30-50-60-99) 0207.14.(10-20-30-50-60-99) 0207.24.(10-90) 0207.25.(10-90) 0207.26.(10-20-30-50-60-70-80-99) 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)	MT/year 2014=16000 1/ 2015=16800 1/ 2016=17600 2017=18400 2018=19200 2019=20000	MT/year 2014=8000 2/ 2015=8400 2/ 2016=8800 2017=9200 2018=9600 2019=10000
Poultry: Whole Birds	0207.12.(10-90)	MT/year until 2019 Annual=20,000 1/	MT/year until 2019 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
**Import of poultry products is subject to quarterly AGRIM Licenses*