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Report Highlights:

The Ukrainian chicken meat industry recently completed a major production expansion cycle in 2019. Additionally, smaller producers are expected to launch new facilities in 2020/21. However, a significant decrease in prices for Ukrainian chicken meat both domestically and on the world market, together with the outbreak of highly pathogenic avian flu (H5N1) in January 2020, resulted in a slowdown in both production and exports. Ukrainian exports are expected to catch up by the end of 2020. Production in 2020 is expected to ultimately exceed 2019 levels, largely due to more efficient facility utilization. Ukraine's exports to the EU will be lower in 2020 due to new quota limits and the H5N1 flu outbreak. Markets in the Middle East became Ukraine' largest chicken meat consumer.

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

Executive Summary

The Ukrainian chicken industry suffered major problems early in 2020. An outbreak of H5N1 Highly Pathogenic Avian Influenza (HPAI) was registered in Ukraine in January 2020. The outbreak, located in the central-western region of Ukraine, occurred where Ukraine's largest and newest chicken production facility is located. Ukraine's major trading partners - including the European Union (EU), Saudi Arabia, the United Arab Emirates (UAE), Iraq, Egypt and many other countries - imposed a country-wide trade bans. China put the export protocol negotiations on hold, ruining industry expectations that Ukrainian exports to China would begin in the spring 2020. A majority of the export restrictions were removed in March, but production and export flows were already disrupted. The major Ukrainian chicken meat producer – MHP SE - cut production by ten percent in February and March, 2020.

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, a collapse in chicken meat sales to hotels, restaurants and institutions, and a drop in the price of chicken meat, both domestically and internationally. Although, no outbreaks were reported in chicken processing facilities in Ukraine, the spread of the virus had a negative impact on Ukrainian production and trade. However, as of August 2020 Ukrainian chicken meat supplies were not disrupted.

Due to all these unforeseen developments, Ukrainian production and exports in the first half of 2020 were lower than previous Post projections. Available production indicators suggest a significant increase in industry-held frozen chicken meat stocks, depressing domestic market prices and likely resulting in accelerated exports in the second half of 2020. Chicken meat production in Ukraine remains efficient, thus production contraction remains an unlikely scenario.

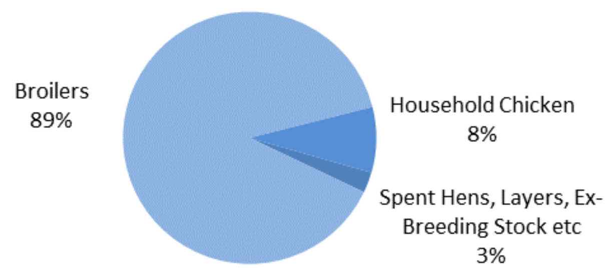
Ukrainian domestic retail meat sales remained relatively stable in 2020. But the decrease in chicken meat prices resulted in an increase in sales of chicken meat to Ukrainian processors. This increase contributed to an overall growth in domestic consumption. Chicken meat replaced some red meat as domestic pork and beef prices remained stable or even grew.

The EU lost its role as Ukraine's largest exports destination for premium parts to markets in the Middle East. However, the EU has remained the major source of imported chicken offal demanded by Ukrainian processors. The New Tariff Rate Quota (TRQ) negotiated in 2019 between Ukraine and the EU resulted in a contraction of Ukraine's exports to the EU in 2020 and stable TRQ-limited exports in 2021 and beyond. Imports from EU are expected to contract as well driven by increased domestic offal production. Middle Eastern market share in Ukraine's exports will continue to grow in 2020 and 2021. Other Asian and Sub-Saharan markets are expected to remain targets for future export expansion.

Production

Large industrial broiler producers dominate Ukraine's chicken production. In 2020, the share of chicken meat produced in large industrial farms grew by one percent, reaching an overwhelming 89 percent of the chicken meat production.

Chicken Meat Production in Ukraine in 2019, PWE, Percent



Source: Ukraine's Statistics Service, FAS/Kyiv calculations

Household chicken meat production remain limited. In households chicken meat is derived from spent hen, broilers and dual-purpose breeds and crosses. Most of the household-grown chicken is consumed on the farm, and do not enter official trade channels. Subsistent chicken farming is stable with small or no production change from year to year. The share of non-broiler chicken (predominately - spent hen) in industrial chicken meat production is stable around three percent. Due to the lack of international market impact from household chicken and spent hen production, these categories will be excluded from further production and trade analysis. All references to "chicken" and "chicken meat" below are attributed to industrially produced broilers only.

Industrial chicken meat production in Ukraine is very concentrated with one large producer responsible for over 60 percent of market share and six mid-size responsible for other 30. Less than nine percent is concentrated in large number of small farms. Majority of large and mid-size producers are vertically integrated companies. In many cases large chicken meat producers grow their own feed crops, operate own elevators, feed mills, hatcheries, broiler production facilities, slaughter, and distribution.

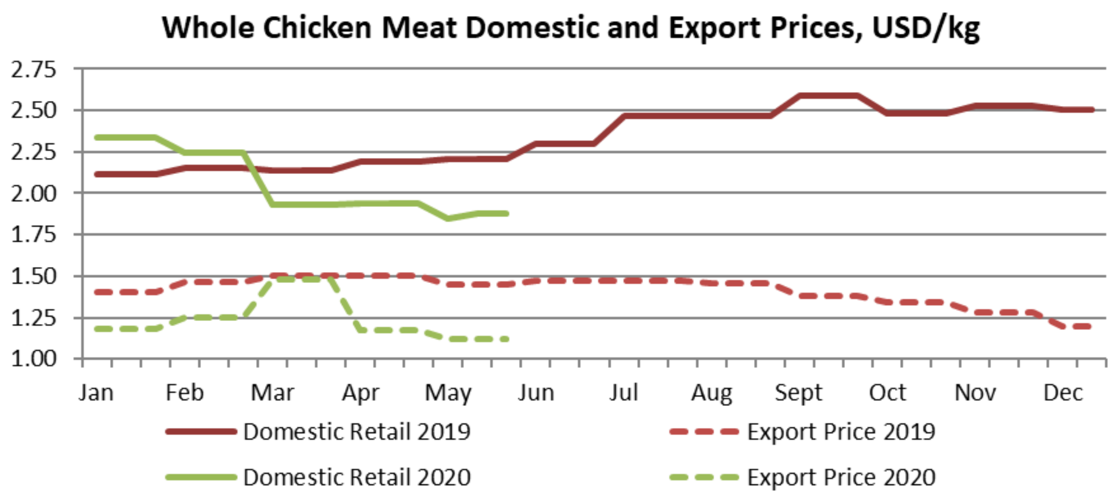
MHP SE remained the largest Ukrainian chicken producer in 2020. The company accomplished the major production expansion program in 2019, which resulted in very significant meat production increase. Production growth in 2020 was expect due to overall efficiency increase and better utilization of existing facilities. H5N1 AI outbreak in proximity to company's newest production site resulted in approximately 10 percent production contraction in February and May due to export markets closure. Despite lower than expected winter production numbers, MHP was able to rebound and reported January-June production growth to almost 360,000 MT, which is two percent higher than in January - June of 2019. No new HPAI outbreaks were reported or impacted Ukrainian chicken producers as of August 2020.

Ukraine's six midsize producers (Agromars, PK Dniprovskyi, Agrooven, Volodymyr-Volynsk Ptahofabryka, PK Hubyn and Ular) were able to keep the same level or to expand production in 2020. Agromars was able to overcome production and legal problems experienced in 2018-19. The company is reported to return to business as usual. It passed compliance audit and returned to the list of EU-approved establishments.

Spread of SARS-Cov-2 virus had relatively insignificant impact to Ukrainian poultry industry performance. No COVID-19 cases at processing facilities were reported by producers or press. Special waivers issued by Ukrainian government to construction companies during COVID quarantine months in spring of 2020 allowed for continuation of planned reconstruction programs. New production and processing facilities were launched in Western Ukraine by Agrol - one of smaller producer. Mid-size Volodymyr-Volynska Ptahofabryka reports that their new processing facility construction remains on schedule. Despite turbulent chicken meat market and price drop, the company was able to develop and occupy upper market segment with its "grown without antibiotics" premium sub-brand. A new production facility remains under construction in 2020.

In Ukraine chicken meat producers are responsible for over 60 percent of feed consumption.   Despite dry fall weather and expected lower feed crops yield in Southern Ukraine, Ukrainian poultry industry will not experience any feed shortage in 2020/21 season. Ukraine will remain a major feed crop exporters and chicken meat producers will continue to enjoy their feed price advantage.

Due to the release of final official 2019 statistics, Post has revised the 2019 PSD production. Production number for 2021 was increased above USDA official to reflect both winter-spring downturn and strong summer rebound. Industry leader's - MHP's production numbers remain weaker than expected, but still strong and above those of 2019. Smaller industry players remain profitable and do not exhibit any sign of slowing down despite turbulent economics and anticipated GDP drop both in Ukraine and many (if not all) export markets.



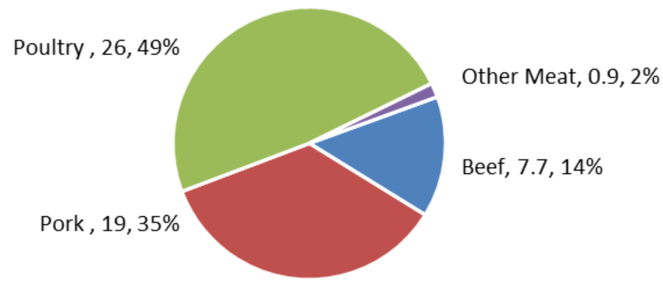
Source: State Statistics Service based on Ministry of Economic Development and Trade Surveys; National Bank of Ukraine; Trade Data Monitor, FAS/Kyiv

Both domestic and world chicken meat market prices took a dive in 2020.   Severe COVID-19-related quarantine measures imposed by the Government of Ukraine (GoU) in early March of 2020 resulted in very significant demand drop by food service and hospitality industries. Retail demand suffered a bit, but quickly returned to normal. Ukrainian cafes and restaurants were allowed to resume limited service on open-air patios in mid-May and to return to full-service operations in late June. These measures along with export growth allowed for some price stabilization. Nevertheless, both domestic and export price remain 10 to 20 percent below the 2019 level and significant uncertainty remains due to concerns over the second way of COVID-19 spread on major destination markets in EU and Asia. Although lower, than usual, existing price level allows for profitable production, domestic sales, and exports.

Consumption

Poultry (nearly all officially reported poultry consumption number is chicken) remains the major animal protein with almost 50 percent diet share. Although expected to remain stable in 2020, poultry consumption in Ukraine is likely to grow by two and a half percent. COVID-associated economic downturn negatively impacting disposable incomes as well as widening gap between poultry and red meat prices contributed to poultry consumption growth. These factors are expected to influence consumption in 2021, so domestic consumption numbers are increased even further.

Per Capita Meat Consumption in Ukraine in 2019, KG



Source: State Statistics Service of Ukraine

The real number of poultry consumers is likely to be smaller than the official population numbers suggest, thus per capita consumption is higher. Although statistics already accounted for a 2.3 million population number drop due to the loss of control over the Crimean Peninsula, an additional 2.5 to 3 million people are located in eastern Ukraine, which is not controlled by the central government. There are no poultry supplies to those territories.

Another 3.2 million Ukrainians used to work abroad, although this number decreased significantly in 2020 as COVID-related restrictions in neighboring EU countries brough majority of Ukrainian workers back home. The impact from this return on poultry consumption is mixed. The number of poultry consumers probably increased, although remittances flow from abroad dropped, contributing to consumption decrease by families and defendants of foreign workers.

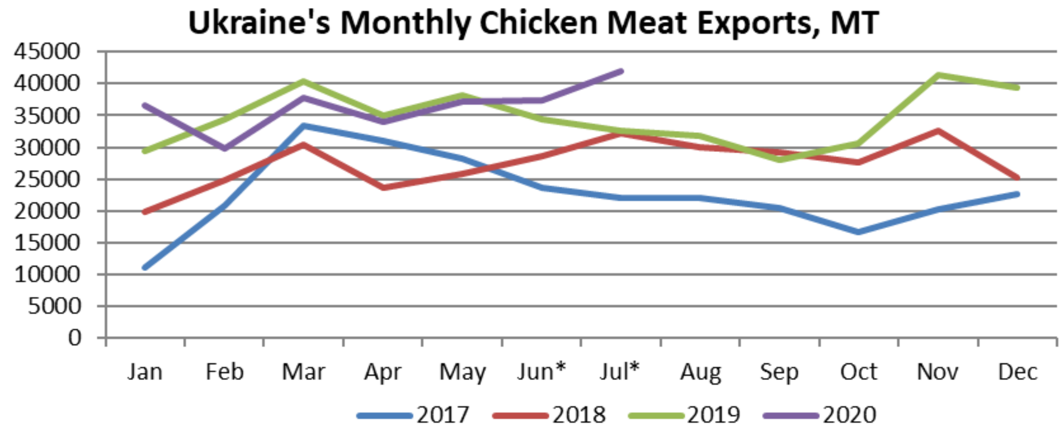
Trade

In 2020/21 Ukraine will remain to be a large exporter and a large importer of chicken meat simultaneously. Trade flows are reflecting low-income country consumption patterns: expensive chicken cuts and whole chicken are exported, while chicken offal is imported. Recent domestic offal production expansion is expected to lead to imports contraction. Exports are likely to grow in both 2020 and 2021 on expense of small and medium size producer's growth and better facility utilization by the largest producer – MHP SE. Exports will continue to exceed imports both in volume and especially in value terms.

Exports

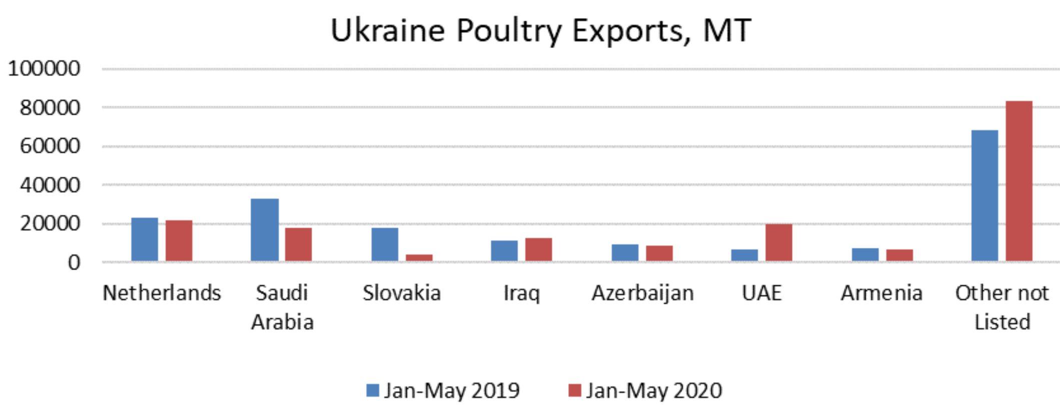
Ukraine is expected to marginally increase chicken meat exports in 2020 and 2021 despite economic turbulences both home and internationally. Low production cost will be the main reason for production growth in this situation. Available production indicators show higher production in Jan-June of 2020 despite some production decline in March and April. However, this forecast is very fragile due to unpriceable COVID situation developments.

Ukraine's largest chicken meat producer – MHP SE is expected to remain the largest exporter responsible for almost 90 percent of Ukraine's total chicken meat exports. In the remaining months of 2020 Ukraine is likely to concentrate on existing markets in Asia, former Soviet Union countries, and Africa. Ukraine is unlikely to start chicken meat exports to Japan or to negotiate market access and start exports to China by 2020 yearend, although both markets may become available in 2021.



Source: Trade Data Monitor; State Customs Service of Ukraine
**Preliminary data*

Upon introduction of new smaller TRQ in 2019, EU continued to lose its role as the major chicken meat destination for Ukrainian producers. Its share declined from 35 percent in 2018 to just 16 percent in 2020. Middle Eastern countries quickly gain importance as destinations for Ukrainian premium chicken meat (predominately whole chicken). Situation is not expected to change in 2021.



Source: Trade Data Monitor

Middle Eastern Markets

As expected, Gulf country markets continued to replace the EU as major destination for Ukraine's premium chicken products. UAE became the largest consumer of Ukrainian chicken in the first half of 2020. Exports to Saudi Arabia, Oman and newly opened market in Qatar slowed down due to HPAI import ban. Exports to Kuwait and Iraq remained strong.

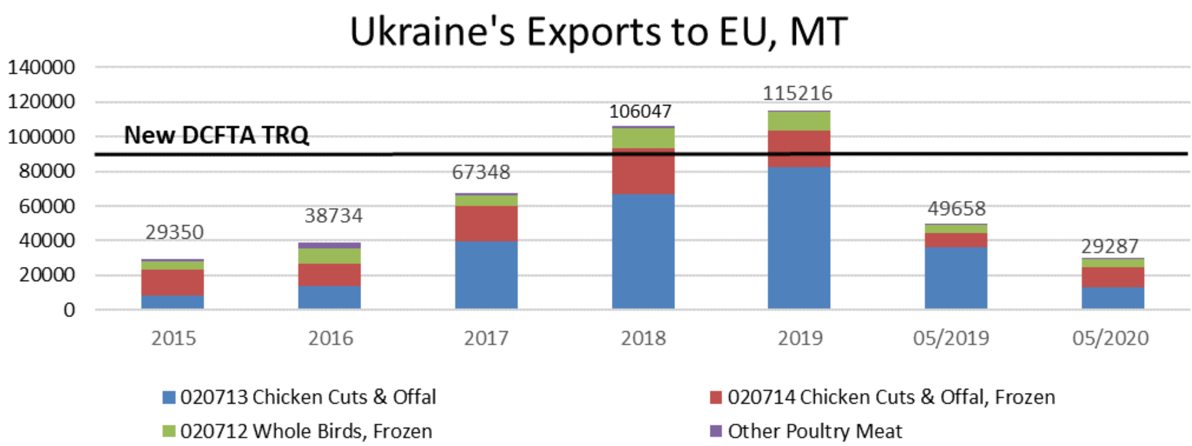
The EU Market

Although four facilities belonging to three Ukrainian broiler producers are approved for exports to the EU, MHP SE is responsible for the largest share. Ukraine's second largest chicken meat producer was able to restore EU market access in 2019.

Export of chicken meat products in 2020 is guided by new market access terms under new increased TRQ. New TRQ (in a form of amendment to Deep and Comprehensive Free Trade Agreement -

DCFTA) was finalized in July of 2019. In addition to 20,000 MT of whole chicken now Ukraine may export 50,000 MT of chicken cuts + 18,400 MT (under original TRQ) with an incremental increase of 800 MT/year in year 2020 and in year 2021.

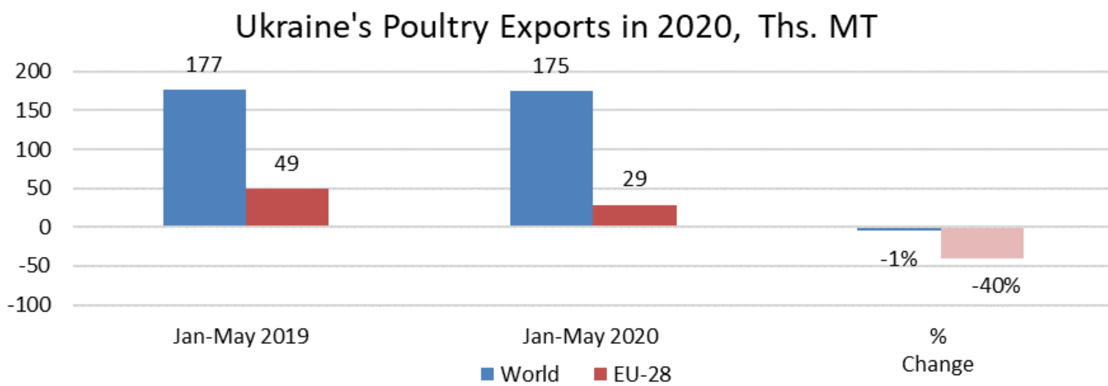
Historic Remark: Prior to July 2019 Ukraine was supplying chicken parts in significant excess of previously negotiated TRQ. A bone left attached to much demanded chicken breasts allowed for product classification to change to inferior poultry (HS 020713) for which no TRQ or import duty were established. Later on, the product was deboned at Netherland or Slovakian facilities acquired by Ukrainian producers. These two countries remained responsible for the majority of Ukrainian exports to the EU. Old TRQ established under DCFTA between Ukraine and EU in 2014 was exceeded regularly since 2017.



Source: Trade Data Monitor, FAS/Kyiv

In result of changed market access terms Ukraine's supplies to EU got more diversified in 2020. Some inferior poultry HS 020713 is still exported to keep acquired EU facilities running. Overall chicken cuts (predominately breasts) sales to EU are expected to be below 2019 level due to both, new properly enforced TRQ and decreased price for chicken breasts in EU market. In early 2020, significant volumes of chicken cuts were redirected to Asian markets. Ukraine is likely to miss even available TRQ volume due to quarterly distribution of EU's TRQ and inability to export in January-March of 2020.

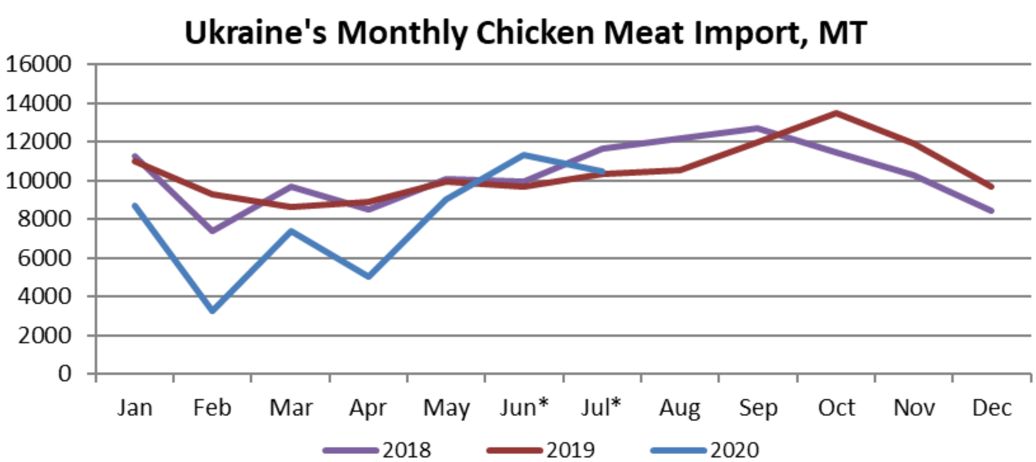
Once significant, exports to EU occupy quickly shrinking share of Ukraine's exports. Exports to EU are expected to top in 2021 when import TRQ will mature. In the following years Ukraine's exports are expected to remain flat, limited by the quota. The Government of Ukraine is planning to negotiate TRQ expansion at some point in future when party agree to review DCFTA terms.



Source: Trade Data Monitor

Imports

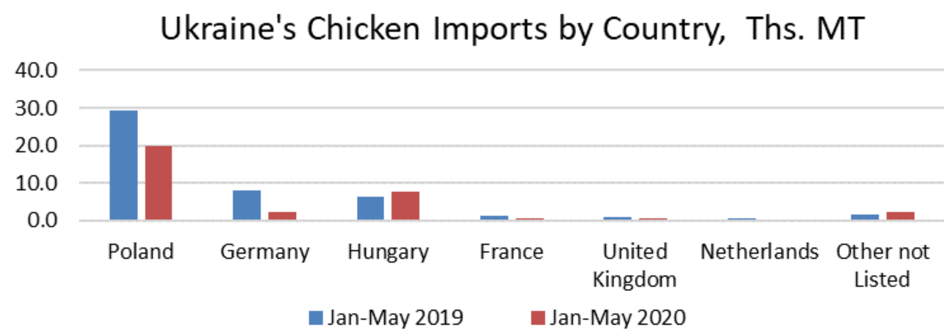
The significant premium parts export growth in recent years would not be possible without massive offal imports that substitute exported chicken meat in the price-sensitive domestic market. All imports are consumed by Ukrainian processors.



Source: Trade Data Monitor
**Preliminary data*

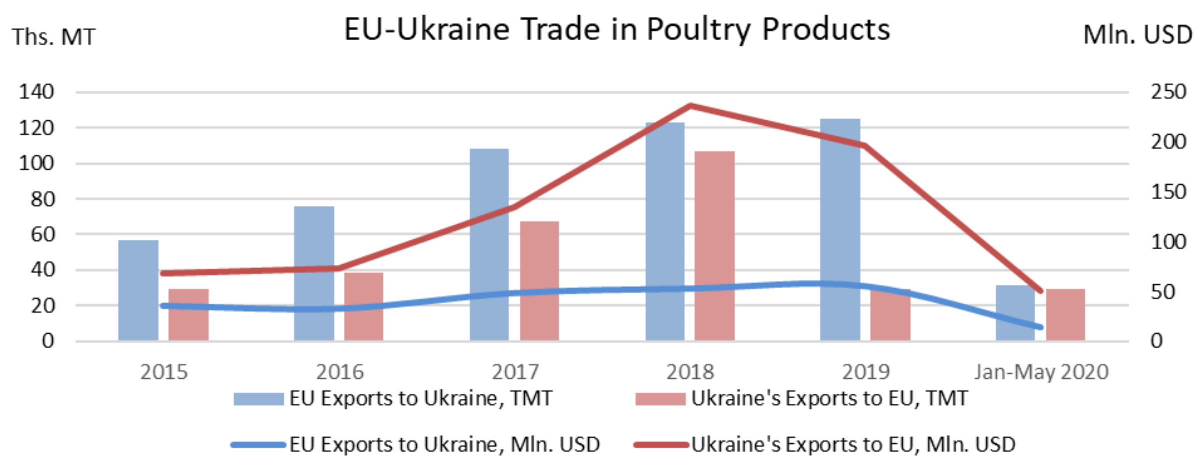
Previously Ukrainian chicken meat producers exhibited little interest in domestic offal market due to low profit margins. However, domestic production and processing growth allowed for some offal production increase. These additional production facilities launched in late 2019 resulted in imports drop in 2020. Additional import decrease is forecasted for 2021.

EU countries remained the only source of cheap chicken offal. For number of years, EU imports also served as an important political argument in negotiation of new Ukraine's export TRQ.



Source: Trade Data Monitor

Although Ukraine's exports and Ukraine's imports are comparable in terms of volume, value of Ukrainian exports to EU exceeds EU imports significantly. Situation is expected to continue in 2021, although long-term need in EU offal is likely to diminish.



Source: Trade Data Monitor

Section II Statistical Tables

Broiler Meat PSD Table*

Chicken, Meat, Broiler Ukraine, MT	2019		2020		2021
	Market Year Begin: Jan 2019		Market Year Begin: Jan 2020		Market Year Begin: Jan 2021
	USDA Official	New Post	USDA Official	New Post	New Post
Production	1335	1 355	1 365	1 410	1 450
Total Imports	125	125	90	110	100
Total Supply	1 460	1 480	1 455	1 520	1 550
Total Exports	409	406	400	420	430
Human Consumption	1 051	1 074	1 055	1 100	1 120
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	1 051	1 074	1 055	1 100	1 120
Total Use	1 460	1 480	1 455	1 520	1 550
Ending Stocks	0	0	0	0	0
Total Distribution	1 460	1 480	1 455	1 520	1 550

Not Official USDA Data

Exports of chicken paws to China and Hong Kong as well as chicken meat exports to Vietnam are excluded from the export numbers.

<u>New Reading</u> of Point A of the Appendix to Annex I-A to Chapter 1 of Title IV of the Association Agreement between the European Union and Ukraine

Poultry meat and poultry meat preparations	0207 11 (30-90) 0207 12 (10-90) 0207 13 (10-20-30-50-60-70-99) (*) 0207 14 (10-20-30-50-60-70-99) (*) 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)	50 000 tons/year expressed in net weight + 18 400 tons/year expressed in net weight with an incremental increase of 800 tons/year expressed in net weight in year 2020 and in year 2021 + 20 000 tons/year expressed in net weight (for CN code 0207 12 (10-90))

(*) *For the sake of clarity, tariff lines 0207 13 70 and 0207 14 70 set out in the Tariff schedules of EU in Annex I-A to Chapter 1 of Title IV of the Association Agreement shall be subject to the TRQ set out in the third column 'Quantity'.*

Ukraine's Top Chicken Export Markets*, MT

Partner	Unit	Calendar Year					January-May		
		2015	2016	2017	2018	2019	2019	2020	%Δ 2020/19
World	T	162781	242278	272410	329827	415459	177397	175264	-1,20
Netherlands	T	15682	18148	39168	49071	60055	23426	22110	-5,62
Saudi Arabia	T	28	2484	7633	31956	47918	32917	17728	-46,14
Slovakia	T	21	511	9961	31353	40666	17675	4051	-77,08
Iraq	T	40770	64694	29040	36497	28250	11448	12581	9,90
Azerbaijan	T	88	4878	16905	20820	26585	9520	8892	-6,60
UAE	T	4943	4438	13942	13613	21672	6608	19744	198,79
Armenia	T	3060	3783	3843	6381	17006	7450	6949	-6,72
Other not Listed		98186	14334 4	151922	140137	173304	68349	83207	292778

Source: Trade Data Monitor

**Includes chicken paws and chicken meat export to Vietnam*

Top Chicken Suppliers to Ukraine, MT

Partner	Unit	Calendar Year					January-May		
		2015	2016	2017	2018	2019	2019	2020	%Δ 2020/19
World	T	56992	75755	108587	123537	125407	47691	33339	-30,09
Poland	T	31440	46757	74289	78831	76197	29308	19844	-32,29
Germany	T	18392	16813	13497	18912	19698	7866	2251	-71,38
Hungary	T	1010	1808	6185	13389	19308	6263	7643	22,03
France	T	1013	1896	2831	2022	2941	1152	630	-45,31
United Kingdom	T	1976	2368	3552	2984	2171	965	635	-34,20
Netherlands	T	1463	3224	3286	2217	1486	435	148	-65,98
Other not Listed		1697	2890	4947	5181	3607	1703	2189	

Source: Trade Data Monitor

Attachments:

No Attachments