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**Date:** 7/31/2014

**GAIN Report Number:** UP1424

## Ukraine

**Post:** Kiev

### Ukraine Stops Dairy Exports to Russia

**Report Categories:**

Agricultural Situation

Dairy and Products

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**Report Highlights:**

Due to Russia's Veterinary and Phytosanitary Authority - Rosselkhoz nadzor import ban Ukraine stopped all dairy exports to Russia starting July 28th, 2014. This action will lead to complete cheese exports stop resulting in 2.2 percent of Ukraine's agricultural exports drop. Losses in butter and dried milk exports are also significant and may result in additional 0.5 percent of trade loss. The total market loss will amount to USD 353 million with roughly USD 290 million losses in the remaining months of 2014. Forced to switch to butter and NFDN production, Ukraine will dump significant quantities of these products on the world market.

## General Information

According to an official statement of the Russian Federal Veterinary and Phytosanitary Service (Rosselkhoznadzor) Head Assistant Alexei Alexeienko, Russia stopped imports of all Ukrainian dairy products stating from July 28<sup>th</sup> of 2014. The decision was made on July 28<sup>th</sup> and officially published on July 29<sup>th</sup> on Rosselkhoznadzor web site. Rosselkhoznadzor also notified Ukrainian authorities proposing to start negotiations on the issue. Currently all Ukrainian dairy suppliers are officially delisted on Rosselkhoznadzor website :

[http://www.fsvps.ru/fsvps/importExport/ukrain/enterprises.html?product=26&productType=5& language=en](http://www.fsvps.ru/fsvps/importExport/ukrain/enterprises.html?product=26&productType=5&language=en)

According to Dr. Alexeienko, the ban is introduced because of safety issues with Ukrainian cheese. "This product is dangerous and does not match the certificate requirements. It is manufactured with palm oil use of unknown origin and quality," – Alexeienko stated. Rosselkhoznadzor also consider this trade ban to be in compliance with the World Trade Organization rules and does not envisage any developments on WTO front.

Head of Rosselkhoznadzor Sergey Dankvert also commented on the issue stating that safety and quality of Ukrainian cheese deteriorated significantly in the recent year. In 2013 Rosselkhoznadzor stopped 37 allotments of "not wholesome and dangerous" cheese while in 2014 the number of rejected allotments increased to 196. This forced the Russian authorities to apply trade restriction.

## Economic Impact

Russia is the biggest trading partner and consumer of Ukrainian agricultural products. In 2013 it imported almost 50,000 MT of cheese for almost USD 315 million. This amounts to 87 percent of all cheese exports and 1/2 of Ukrainian cheese domestic consumption. Russia's share on non-fat dried milk (NFDM) and butter is also significant and may increase trade loss by additional USD 39-40 million.

### Ukraine's Exports of Dairy Products\*

| Partner Country | Quantity, MT |       |       | % Share |        |        | % Change  |
|-----------------|--------------|-------|-------|---------|--------|--------|-----------|
|                 | 2011         | 2012  | 2013  | 2011    | 2012   | 2013   | 2013/2012 |
| World, Butter   | 1172         | 477   | 3245  | 100.00  | 100.00 | 100.00 | 579.94    |
| Russia, Butter  | 595          | 61    | 2330  | 50.78   | 12.76  | 71.81  | 3725.12   |
| World, Cheese   | 77075        | 64243 | 57528 | 100.00  | 100.00 | 100.00 | - 10.45   |
| Russia, Cheese  | 68079        | 56103 | 49861 | 88.33   | 87.33  | 86.67  | - 11.13   |
| World, NFDM     | 22274        | 26241 | 12402 | 100.00  | 100.00 | 100.00 | - 52.74   |
| Russia, NFDM    | 5398         | 11138 | 5439  | 24.23   | 42.44  | 43.86  | - 51.16   |

Source: State Statistics Committee of Ukraine

\*FAS commodity definitions and HS Codes are used

### Value of Exported Dairy Products\*

| Partner Country     | 1000 United States Dollars |        |        | % Share  |        |        | % Change  |
|---------------------|----------------------------|--------|--------|----------|--------|--------|-----------|
|                     | 2011                       | 2012   | 2013   | 2011     | 2012   | 2013   | 2013/2012 |
| World, Butter       | 5492                       | 1969   | 18805  | 100.00   | 100.00 | 100.00 | 854.90    |
| Russia, Butter      | 3083                       | 246    | 14200  | 56.13    | 12.51  | 75.51  | 5662.63   |
| World, Cheese       | 437329                     | 349808 | 358250 | 100.00   | 100.00 | 100.00 | 2.41      |
| Russia, Cheese      | 389089                     | 306444 | 314153 | 88.97    | 87.60  | 87.69  | 2.52      |
| World, NFDM         | 68938                      | 72023  | 49338  | 100.00   | 100.00 | 100.00 | - 31.50   |
| Russia, NFDM        | 19379                      | 34071  | 24788  | 28.11    | 47.31  | 50.24  | - 27.24   |
| World, Total Value  | 511760                     | 423801 | 426394 | 100.00   | 100.00 | 100.00 | -0.611895 |
| Russia, Total Value | 411551                     | 340762 | 353141 | 80.41879 | 80.406 | 82.82  | -3.63293  |

Source: State Statistics Committee of Ukraine

\*FAS commodity definitions and HS Codes are used

Due to multiple trade restrictions of different origin and length, Trade in dairy products with Russia was considered risky and was on decline in 2011-12. Many exporters would have to quit the market and search for clients elsewhere.

Absence of significant foreign markets for Ukrainian cheese and cheese products will force Ukrainian dairy producers to switch to NFDM+Butter couple instead of cheese. These two products would have to be sold elsewhere as little market space is available domestically. Ukraine will have to re-open markets in North African and Middle Eastern countries where Ukrainian dried milk was sold in the middle of 2000's. Additional quantities of milk and butter are expected on traditional ex-USSR markets in Moldova, Georgia and Azerbaijan.

Milk price is expected to decrease significantly as dairy processors are forced to concentrate on low-margin products. This will have a significant impact on rural dwellers as almost 80 percent of raw milk is procured from the small households. A lot of producers will reassess profitability of milk production, which may result in massive cow slaughter and animal number decrease.

### Industry and GOU Reaction

Due to ongoing political crisis and unrests in the Eastern Ukraine, actions of Russian authorities were expected by the industry. Multiple trade conflicts of smaller scale were happening in the past and their number increased significantly in the recent year. All these served as early warning signal to the industry; however it is difficult to be prepared to complete market closure of this size.

The Head of the Union of Dairy Processors Vadym Chagarovsky stated in his interview to Forbes-Ukraine that Union does not see any valid reason for trade restriction. According to him the industry is forced to switch to products that can be exported to foreign markets and break its dependence on Russia. The sooner industry does it – the better. No matter how situation turns in the near future the dairy processors will have to survive through hard times.

Officials in the Ministry of Agricultural Policy and Food also questioned the validity of the trade ban blaming the political factor. According to the officials, the industry and Ukrainian Veterinary-Phytosanitary Service is always opened for dialog and quick to react on deficiencies found. Recent

actions of the Russian authorities do not show that such dialog is welcomed.

**Remark**

Almost simultaneously with dairy products import ban Rosselkhoznadzor introduced additional bans for Ukrainian canned vegetables and canned fish. Trade in these products is less significant with total trade value close to USD 28 million. However a lot of small and mid-size canneries that relied on Russia as major export market may suffer losses from the trade drop. Similarly to dairy products these producers will have problems with foreign markets as domestic market is saturated and no significant foreign markets are developed.

As this report was drafted another statement of Russian authorities was published. According to it Russia may ban imports of soy, soymeal, sunflower and corn groats from Ukraine due to phytosanitary reasons.