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## **Ukraine**

**Post:** Kiev

### **Ukraine Stops Many Exports to Russia**

**Report Categories:**

Agricultural Situation

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#### **Report Highlights:**

Due to multiple import bans introduced by Russian authorities, Ukraine will stop agricultural exports to the Russian Federation for close to USD 0.6 Billion. As of now the list of banned products includes dairy products, canned vegetables and fish, soybeans, soymeal, corn cereals and sunflower seeds. Ukraine will be able to redirect some of these products to other international markets, but real economic impact is difficult to evaluate due to simultaneous Russian sanctions against other trading partners and massive world market change which will follow.

## General Information:

On **July 25<sup>th</sup>** the Russian Federal Veterinary and Phytosanitary Service (Rosselkhoz nadzor) officially announced that Russia stopped imports of all Ukrainian dairy products. On Monday, July 28<sup>th</sup> Rosselkhoz nadzor officially delisted all Ukrainian dairy producers on Rosselkhoz nadzor's website. The decision was made on July 28<sup>th</sup> and officially published on July 29<sup>th</sup> on Rosselkhoz nadzor's [website](#).

On the same day, Rosspotrebnadzor [officially](#) announced that all imports of canned vegetables and fish from Ukraine will stop on **July 29<sup>th</sup>** due to deficiencies found in product of 7 Ukrainian suppliers. Deficiencies included wrong indication of mass content of the fats and proteins, salt, vitamin C and microelements). On July 31<sup>st</sup> Rosspotrebnadzor also [announced](#) that import of Ukrainian juice (including infant formula) was banned on **July 29<sup>th</sup>** due to noncompliance with the Custom Union technical regulations and misuse of "EAU" (Eurasian Union) compliance sign.

On **August 1<sup>st</sup>** Rosselkhoz nadzor announced that it will ban imports of Ukrainian soybeans, soymeal, corn groats and sunflower due to presence of quarantine weeds in these products.

## Economic Impact

Total market loss for Ukrainian producers of agricultural and food products is expected to be close to \$0.5 billion mark. The table below depicts market loss by product group and evaluated possible trade loss by the end of 2014. A significant portion of banned products may be sold elsewhere as big foreign markets were developed over time. However there will be significant transaction cost associated with such a shift. It is difficult to evaluate the development of the situation, since no complete trade bans from Russia were ever experienced by most industries. Cheese producers faced a recall trade ban in 2006, although that ban was short-lived and limited market access was restored in a couple of months.

### Impact of Russia' Trade Restrictions on Ukrainian trade in Agricultural Products

Product or Product Group*	Total Trade in 2013		Trade with Russia in 2013		Russia's Share in Trade by Value	Estimated Trade Loss for the Rest of 2014	
	Volume, 1000 MT	Value, USD Million	Volume, 1000 MT	Value, USD Million		Volume, 1000 MT	Value, USD Million
Cheese (HS 040620, 040630, 040640, 040690)	57.5	358.3	49.9	314.2	87.7	16.0	110.4
Butter (HS (040510, 040590)	3.2	18.8	2.3	14.2	75.5	0.5	2.7
Non Fat Dried Milk (HS 040210)	12.4	49.3	5.4	24.8	50.2	4.0	16.1
Fruit and Vegetable Juices (HS 2009)	144.4	240.1	50.1	72.7	30.3	25	36
Vegetables Preserved (HS 2005)	29.1	56.6	21.7	36.8	65.0	11	20
Canned Fish and Mollusks including Fish Roe (HS1604)	34.9	42.9	28.4	33.4	77.7	8.0	8.2
Soybeans (HS 1201)	1492.5	742.3	156.9	78.7	10.6	53.4	28.9
Soymeal (HS 2304)	21.3	11.9	9.0	5.2	43.5	15.0	8.1
Corn Groats (HS110313)	28.6	12.1	13.5	6.1	50.0	6.6	2.4

Sunflower Seeds (HS 1206)	70.2	49.0	1.6	7.8	15.8	4.0	20.0
<b>Total Trade Impact</b>	<b>n/a</b>	<b>1581.3</b>	<b>n/a</b>	<b>593.7</b>	<b>37.5</b>	<b>n/a</b>	<b>253.1</b>

Source: Global trade Atlas, FAS-Kiev own calculations.

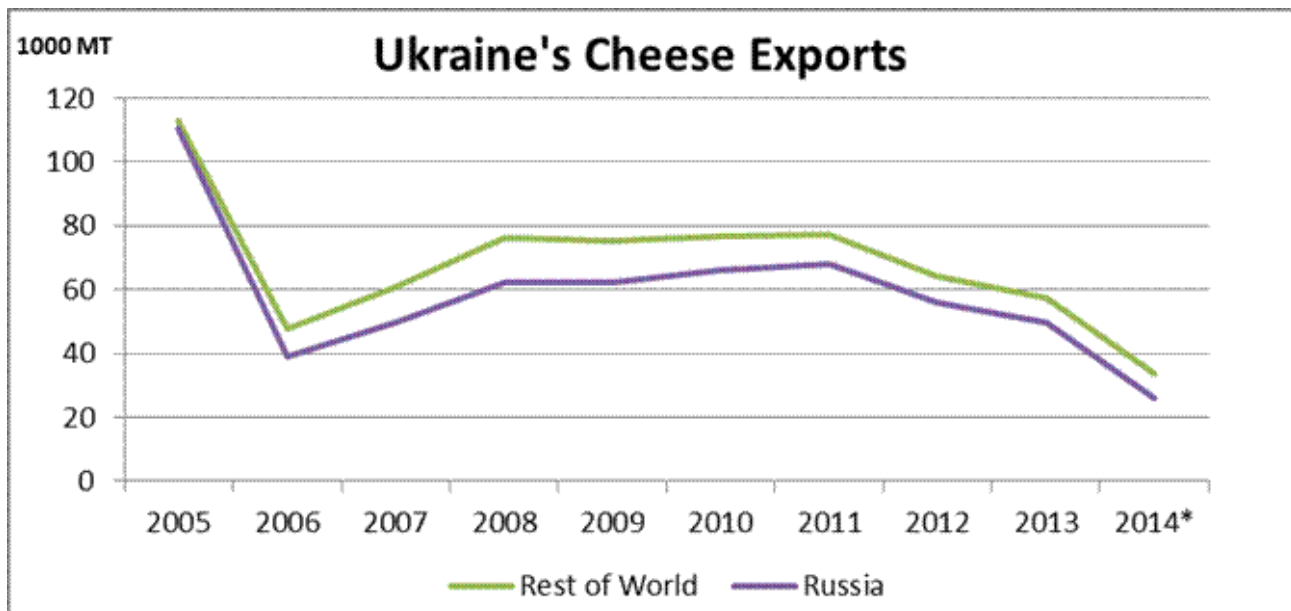
\* The list of products is derived by FAS according to Rosselkhoznadzor and Rosspotrebnadzor official statements. HS Codes were selected to match declared product groups. However some discrepancies are possible.

## Cheese

Cheese Exports to Russia have always been the most profitable business for Ukrainian dairy processors. Russia has been a traditional market for Ukrainian cheese products. Almost 23 years after the disappearance of the Soviet Union, many Russian households preferred Ukrainian cheese to Dutch, German or Polish. Ukraine exported mostly hard cheese of “Rossiysky” type (somewhat similar to German Tilsiter) while European Union (EU) competitors tried to promote rather different “Edam” type products. Consumer preferences happened to be very stable and the perception of “quality” of Ukrainian products was rather high despite multiple public accusations by Russian government authorities to the contrary. The main reason behind these claims was the sourcing of the raw milk from households. The argument was not taken seriously as most Russian dairies procure milk from the same type of producers. Quality perception differs from market to market and consumers always have the final word. In Russia consumers paid a rather hefty price premium for Ukrainian products. Per unit import value of Ukrainian cheese (\$ 6.3 ths./MT) exceeded those of Germany (\$ 4.8 ths./MT) or the Netherlands (\$ 5.1 ths./MT).

In order to address not so affluent consumers, many Ukrainian dairies started exports of a products where butterfat was replaced by cheaper vegetable oils (usually by palm oil). Russian authorities did not recognize this product as classic “cheese”, named it “cheese product” and made retailers designate a different shelf for it. Replacement of butterfat by palm oil cut production cost by 1/3 and allowed competition on the cheapest market segment. The product was very similar to cheese on taste and some consumers considered it healthier as the cholesterol level was significantly lower. There were multiple speculations about substitution of “real cheese” by cheaper “cheese products” in Russian retail. Technically this is possible, but the risk to be caught and loose lucrative Russian market was high and the fraud would not pay for itself in the long run. However, these cases could not be completely ruled out.

Cheese trade developed rapidly in the mid-2000’s as disposable incomes in Russia grew and consumers increased consumption. In 2005 Russian authorities considered Ukrainian exports to be excessive and closed the Russian market for the majority of Ukrainian producers. Multiple follow-up inspections helped to reopen the market, but trade never reached 2005 peak number. More details are available in the 2006 [GAIN Report](#).



Source: State Statistics Service;

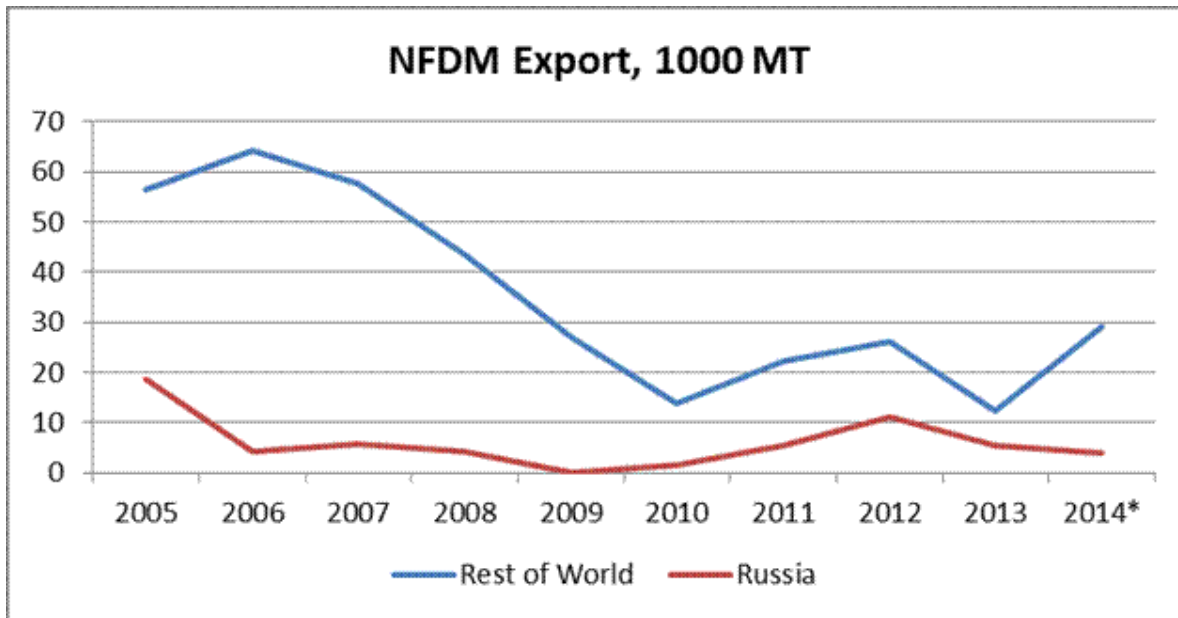
\* Forecast; this is NOT USDA Official cheese trade forecast. The forecast envisaged only trade restrictions implemented by Russia in the end of 2013 - early 2014

As the cheese export graph suggests, different trade restrictions exercised by Russian authorities led to a slow cheese export decline in recent years. Most of them were lifted over time, but exporters were not able to recover their market share. Especially tough measures coincided with Ukraine's political crisis in the end of 2013, leading to trade drop in the late 2013 and early 2014.

Restrictions introduced on July 29<sup>th</sup> 2014 led to complete trade stop. [See GAIN Report UP1424](#). The cheese market volume in 2014 reached \$314 million and nonfat dry milk (NFDM) + Butter close to \$39 million. Due to existing trade restrictions, market loss for the remaining months of 2014 may reach \$110 million. Due to lack of alternative foreign markets and distinctive taste of Ukraine cheese, export destination change is highly unlikely. Increased production exports increase of NFDM and Butter couple seems enviable.

Given Raw Milk -> Cheese conversion ratio close to 11.5 MT/ 1 MT (with 2.2 percent butterfat), additional 184,000 MT of milk will become available on the market in 2014. This quantity can be converted into 8,300 MT of butter and 167,000 MT of skimmed milk, which in turn can be dried into 13,000 MT of NFDM. Given NFDM import ban from Russia and estimated 4,000 MT market loss total additional quantity of NFDM may reach 18,000 MT.

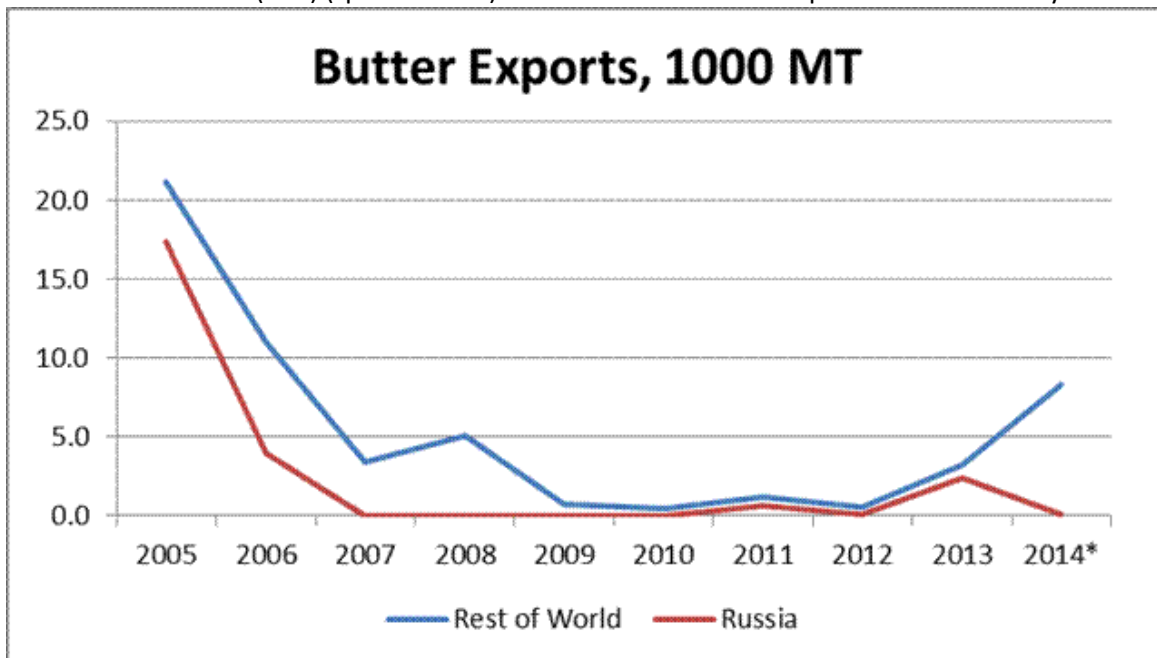
Given historical NFDM export record, it is safe to suggest that Ukraine can redirect its exports elsewhere. Similar exports occurred as far as 2012 and transaction cost for the new market development should not be excessively high.



Source: State Statistics Service;

\* Forecast; this is NOT USDA Official NFDM trade forecast. The forecast envisaged only trade restrictions implemented by Russia in the end of 2013 - early 2014

The butter export situation is quite different from the NFDN. Ukrainian products had traditional markets within former Soviet Union (FSU) (spell out FSU) countries and additional quantities will be very difficult to export.



Source: State Statistics Service;

\* Forecast; this is NOT USDA official butter trade forecast. The forecast envisaged only trade restrictions implemented by Russia in the end of 2013 - early 2014

The biggest non-Russia butter export was noted in 2008 and reached 7,000 MT. However, unlike cheese, butter and NFDM can be put into long-term storage if government chooses to do so through market interventions. So

far the government of Ukraine (GOU) discussed milk purchases to maintain the price and this tool can be used again. This way immediate pressure from the market can be removed, but long-term problems would remain.

### **Juice**

Russia is not the largest consumer of Ukrainian juices; however it is responsible for 35 percent of the market. The two largest markets for Ukrainian products are in FSU countries and in the EU (mostly Poland). Ukrainian producers will potentially be able to discover new market or restore old ties in Middle East or Asian consumers.

### **Canned Vegetables and Fish**

Canned products are traditional Ukrainian exports with Russia occupying 72 percent of the market. Ukrainian brands are well known there and their export to other countries is unlikely. The Ukrainian industry relies heavily on domestic and Russian markets, but the domestic market will not be able to accommodate significant additional quantities of canned products. Over time, consumers tend to move from canned products consumption during winter months to fresh/frozen vegetables. They became available in recent decades due to international trade development and increased domestic greenhouse production. The currency crisis of early 2014 and problems with Russian natural gas supplies that are expected during 2014/15 winter may undermine consumers' purchasing power and some canned vegetables consumption may increase.

### **Soybeans**

Russia is rather large importer of Ukrainian soybean with 11 percent market share. This commodity is not traditional for Ukrainian producers and significant soybean production was developed over the last decade. Ukrainian exporters successfully developed significant markets in Europe and were the majority of soybeans are exported. Ukraine would easily accommodate additional quantities, but Russian import ban for EU meat products can change situation in the EU dramatically.

### **Soymeal**

Russia was aggressively increasing its share on the Ukrainian soymeal market. Up until 2013, Russia's role was insignificant, but in early 2014 it occupied 33 percent of the market. The trade ban will put this trend to an end and Ukraine will have to return to traditional markets in Poland and some FSU countries. Markets in Poland might also be impacted by Russia's trade sanctions, so market substitution predictions will be difficult to make. FSU markets can grow significantly, especially in Belarus, which hopes to increase its presence on the Russian market.

### **Sunflower**

Sunflower exports to Russia had been growing rapidly in the last two years. Existing export duties make trade difficult, but Russia was paying a premium price for Ukrainian products. In 2014 Russia's share grew to 9 percent of the market by quantity and 26 percent by volume.

