

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Approved By:

Randall Hager

Prepared By:

Oleksandr Tarassevych, Agricultural Specialist

Report Highlights:

Production of pork in 2012 is expected to rebound after a slight drop in 2011 boosted by internal demand and cheap feeds. Production of beef will continue its 20 year stagnation trend. Efficiency of dairy and dual purpose animals will remain low making production of beef unprofitable. Ukraine will continue to import pork, and will exported limited amounts domestically produced beef and pork to Russia. Export volumes will remain highly dependent on the political situation in both Ukraine and Russia. Existing technical barriers to trade are expected to continue to limit red meat imports.

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

Executive Summary

Despite some pork production slowdown in 2011, production in 2012 is expected to grow. The industry is building stocks in response to cheap feeds and attractive grain prices. The number of sows (as of January of 2011) did not decrease. Expected swine number increases will be too late to change 2011 statistics, but will show up in 2012. The trend for increased investments into the pork sector is expected to continue in 2012. High domestic pork prices are expected to boost imports a bit in the remaining half of 2011. Exports of pork will remain limited to neighboring Russia. They are expected to continue despite delisting of many Ukrainian meatpackers in July 2011 by Rosselkhoznadzor, Russia's veterinary authority.

Production of beef will continue to fall. Veal and meat from dairy cows will constitute the vast majority of production. The twenty years long downward trend is a result of general inefficiency of the dairy sector with overwhelming majority of animals on household plots. Some investments will continue into dairy enterprises due to extremely attractive milk prices, but high risks and long return period for such investments keep them to a minimum. It is unclear whether or not these investments would result in a significant beef production increase in a longer run. Similar to pork, exports of beef will remain limited mostly to neighboring Russia, where Ukraine has some trade regime and supply distance advantage.

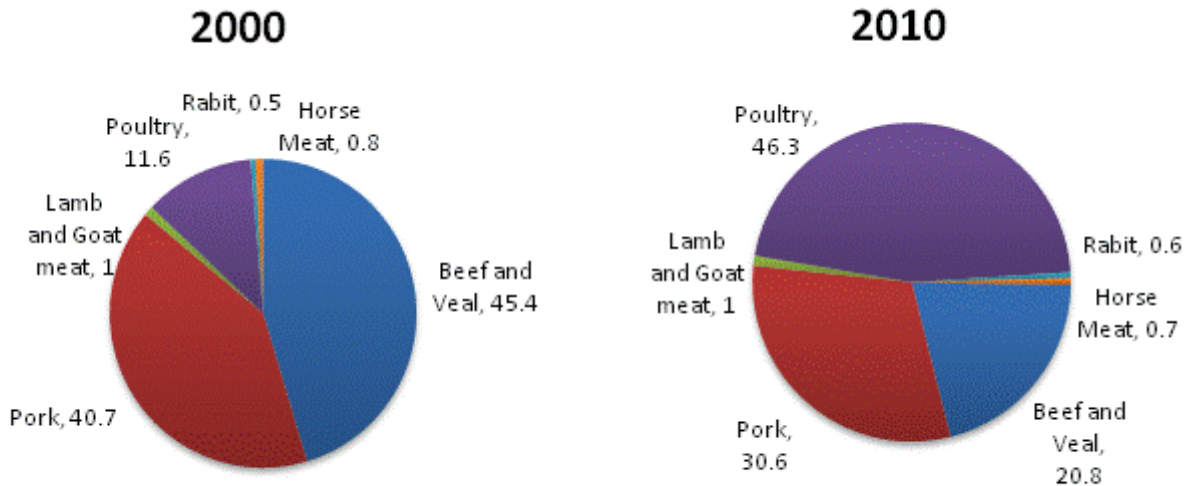
Section I. Narrative

Production

The bumper crop of feed grains expected in 2011 will help Ukrainian livestock producers keep their costs low. It is expected that this year's crop will be similar to historical maximums achieved in 1990 and 2008. Corn, wheat and barley prices in 2011 will be lower due to current grain trade policy, and will help swine producers to maintain profitable operations from 2011 into early 2012, though they will not be a major factor due to general inefficiency of the industry.

As it will be outlined in the Consumption section, the shift in consumer preferences toward cheaper poultry meat depressed production of both beef and pork in the country throughout the last two decades. Year to year shifts are hardly noticeable, but 2000-2010 country meat production change is striking.

Ukraine's Meat Production, Percent



Source: State Statistics Service of Ukraine, Agriculture of Ukraine Yearbook

Swine

The production of swine in Ukraine is more efficient than production of beef. Around 57 percent of swine inventories are concentrated in household sector with remaining 43 percent in big industrial farms. Industrial production share grew almost three percent over last three years. But even in the industrial sector the swine inventory is concentrated in mid-size farms with 500-3,000 pigs. Production costs for one kilogram of pork in live weigh varies widely from 16-18 UAH (\$2.0-2.3) in households to 13-15 UAH (\$1.6-1.9) in mid size non-specialized companies and 9-11 UAH (\$1.1-1.4) in specialized industrial farms. Production costs also vary due to grain price fluctuations and state policies restricting grain exports.

The number of pigs held by small inefficient non-specialized farms and households will decrease over time. Their market share will be taken by big vertically integrated holdings that emerge in eastern and central Ukraine. Their rise is sluggish due to competition with smaller rivals, imports and comparatively slow capital turnover. Market share of vertically integrated companies reached 15 percent in 2010 and expected to grow another five percent by the end of 2012. It is unlikely that the Ukrainian swine industry will reach the same level of concentration as poultry industry where three companies dominate in the market, but share of big companies will be growing in near future.

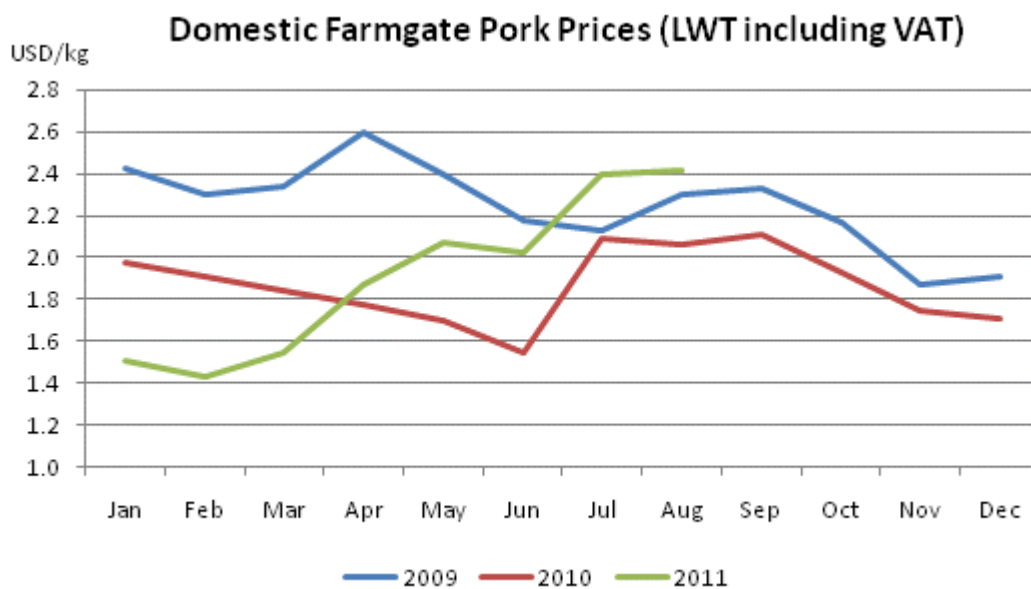
An unusually hot summer of 2010 had significant impact on pork production from late 2010 to early 2011. Small daily gains in the July-August of 2010 led to delayed slaughter, unusually high pork supply in the fall and early winter, and a price collapse in early 2011. Cyclical industry development typical for Ukraine in the recent decade made many analysts to believe in the beginning of another downward trend.



**Forecast*

Source: Ukrainian State Statistics Service; own estimates.

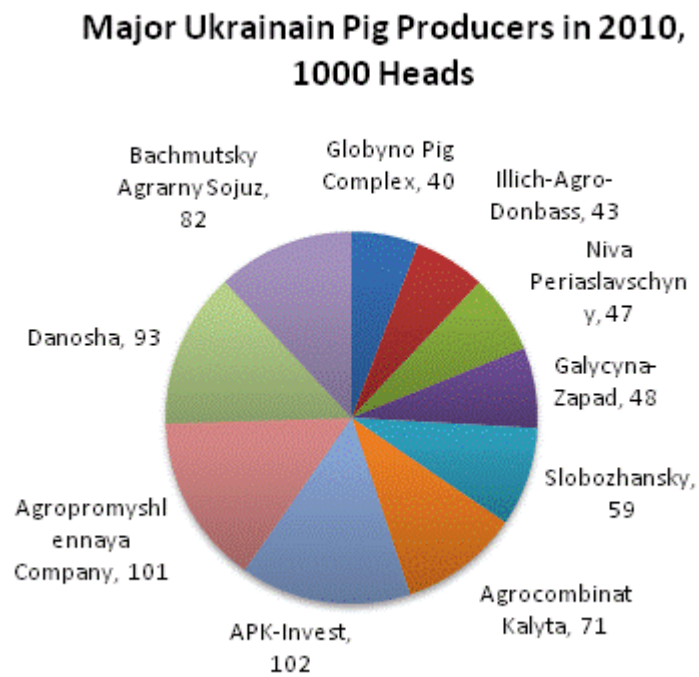
A decreased number of finishing pigs will indeed undermine production in 2011, although there are signs that this recession will be short lived. According to official statistics, number of sows in 2011 remained unchanged. The price situation on the market also changed drastically. February-July pork price surged to a three-year record. Existing prices allows for profitable production even in small inefficient farms although market players expect some prices decrease this fall.



Source: Ukrainian Agrarian Business Club, National Bank of Ukraine, own calculations.
 VAT – Value Added Tax

Industrial production of pork in Ukraine remains a profitable business that attracts a lot of investments into expansion of existing facilities and construction of the new ones. Current grain export policy, pork import barriers, cheap labor, lax ecological requirements, favorable tax regimes, and a sizable domestic market gives Ukrainian swine producers some competitive advantage over their US or EU colleagues.

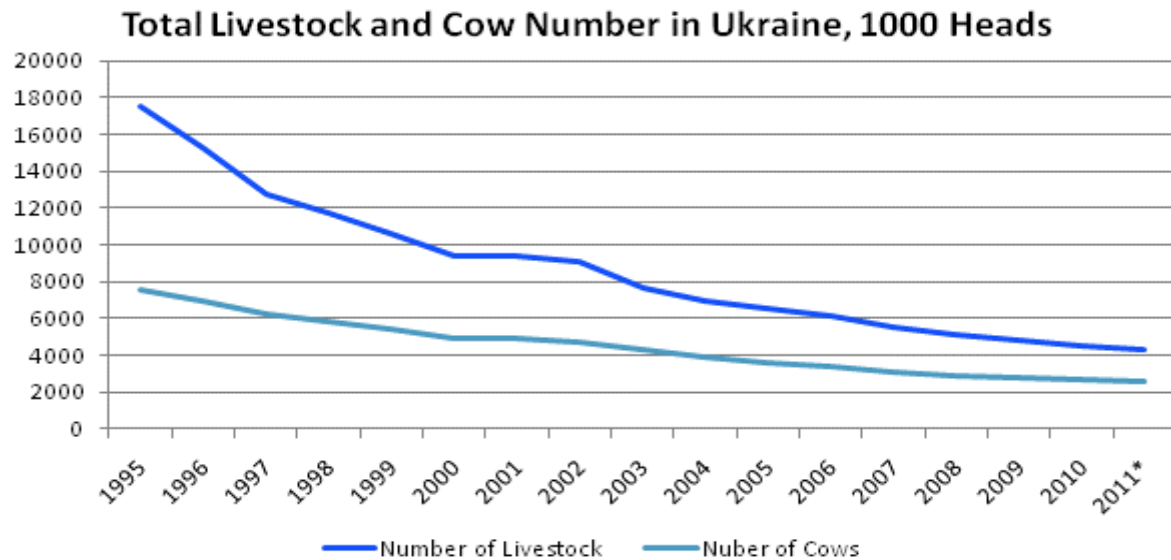
Similarly to their poultry colleagues, big swine/pork producers believe that vertical integration makes sense. Industry players invest into expansion of arable land areas, agricultural machinery, new feed mills, slaughter and processing facilities. Such a broad investment spectrum requires a lot of resources and slows down the main business (pork) production. At the same time it allows for cost control throughout the entire supply chain – from grain production to pork and sausages. Mitigation of price risks keeps Ukrainian swine producers afloat when pork prices approach production costs like those in February of 2011. According to industry sources, the efficiency of the biggest producers provide them with sufficient profit margins even when meat prices are low.



Source: Prybutkove Svyarstvo magazines.

Cattle

Ukraine's production of beef continues to decline with no sign of recovery. This production remains a derivative of the dairy industry and is highly dependent on milk price. Despite record-high milk prices in 2011 the livestock herd size is expected to continue to decline in both 2011 and 2012. Beef animals constitute a negligible portion of the Ukrainian livestock herd. Their number will continue to decrease along with dairy and dual-purpose animals.



**Forecast*

Source: Ukrainian State Statistics Service; own estimates.

Ukrainian households will continue to be the major producers of beef in near future. In mid-2011, households accounted for 70 percent (growing by one percent from 2009) of all cattle and 78 percent of dairy cows in Ukraine. Backyard production practices remain inefficient with very little attention paid to feeding rations and animal health issues. Households view livestock husbandry as important part of the social “safety net” and pay less attention to profitability of a cow. Even existing genetic potential is not fully utilized. Efficiency of industrial farms is also predominately low. Many industrial farms follow outdated livestock management and feeding practices inherited from old collective farms.

High milk prices observed on the market in last year or two ignited some interest from investors. The flow of money into the dairy enterprise remains to be small. Businesses continue to target the poultry and swine sectors because of higher and faster rates of return. No large scale investments into beef production were made in recent decade. Lower beef prices in comparison to pork have also driven investments elsewhere.

Cattle, cow and swine inventories for 2010 were changed in the PSD table to reflect official changes in the Ukrainian State Statistics Committee year-end statistics. Production (pig crop and calf crop) levels have been changed to match the GOU revisions. Beef import figures for the PSD were converted into CWE.

Consumption

Slow economic recovery and continued crisis aftershocks will not allow major growth in disposable income in 2011/12. Ukrainian consumers remain highly price cautious especially in lower income small towns and rural areas. According to industry sources in 2005 shares of animal proteins in average Ukrainian diet were distributed as follows: 30 percent of veal and beef, 32 percent pork, and 36 percent poultry. In 2009 the share of poultry grew to 44 percent and in 2010 to 50 percent. Per capita poultry consumption in Ukraine (including housed production and consumption) in 2010 reached average EU

level of 23.5 kilograms. Further growth of poultry consumption is possible mostly as substitution for more expensive pork and beef. Steadily falling beef production and slow pork industry development create additional incentives for poultry industry growth. The gap between poultry and red meat is expected to widen in 2011/12.

Prices have also had a significant impact on consumption patterns especially among less affluent consumers. In traditional Ukrainian consumption pattern shares of beef and pork dominated. Over the last decade the number of cattle was on decline while price of beef was on steady slow growth. Although in 2011 price of beef almost reached the price of pork, the beef/pork price ratio in Ukraine remains to be very unusual with higher pork price. Further slow beef price growth seems inevitable. In turn this will negatively impact beef consumption, as consumers got used to cheaper beef in last two decades.

The majority of Ukrainians are not ready to pay a premium price for beef derived from beef cattle, although such product is available in few upper segment restaurants in major urban centers. This market segment can grow significantly over time as more consumers get attracted to the taste of premium product. Attempts to sell chilled locally produced beef made by Ukrainian companies had mixed success due to inferior beef quality far short of premium segment it was positioned into.

Trade

Import

Import of beef and pork to Ukraine are subject to actions that can reduce trade, via two institutions: Ukraine's Custom Service (CS) and the State Veterinary and Phytosanitary Service of Ukraine (SVPS). Importers say that the Customs Service assigns a higher import value for imported meat products which results in increased import duty and Value Added Taxes. In turn the SVPS qualitatively limited imports using permit procedures. Due to unclear and controversial legislation the SVPS demanded import permits for all imported products of animal origin including meat. In many cases importers were denied import permits because of technicalities or errors in application. In some cases import permits were delayed, so importers suffered additional losses.

In April 2011 Ukraine [introduced import licensing](#) for poultry and lard (HS 0207 and 0209). According to the GOU's WTO obligation Ukraine can introduce only automatic import licensing which does not establish a trade barrier. Licensing cost is approximately USD 100.

Due to significant domestic production of red meat and consumer adherence to fresh/chilled products, imported meat is used mainly for industrial processing into sausages, ham, frozen semi-finished and smoked meat products. Imports of premium quality beef will remain insignificant although in a longer term perspective this market can become interesting for US exporters.

The market for pork (mostly trimmings) is rather big, but import restrictions combined with growing domestic production leave little hope for future trade growth. US share on Ukraine's pork market is not very significant while competition with Brazilian, German and Polish products is fierce.

Export

The Russian Federation will be the major destination for Ukraine's exports in 2011. The amount of trade in 2012 will remain to be subject to political bilateral negotiations between two countries. Ukraine and Russia have an FTA that keeps Ukrainian beef and pork outside of Russian import quotas. None of the competitors has similar competitive advantages. Although Russia's active import restriction policies and heavy subsidies to own production do not allow Ukrainian industry to consider Russia as reliable long-term export destination. Russia is likely to continue trade restrictions through veterinary and sanitary measures in 2011/12

On July 15th of 2011 Russian Veterinary Authority Rosselkhoznadzor announced results of the system audit of Ukrainian meat and dairy producers delisting 28 companies (six of them temporarily). This inspection conducted by Rosselkhoznadzor was officially positioned as Custom Union (CU) inspection, so trade restriction would cover other CU members - namely Belorussia and Kazakhstan. Now only [4 beef producers](#) (15 delisted) and [3 pork producers](#) can export to Russia and the CU.

Ukrainian meatpackers ship to Russian markets despite obvious unsatisfied domestic demand in pork due to significant market price difference. Shortage in the Ukrainian market are covered by imported products creating a situation when Ukraine serves as an importer and an exporter of pork at the same time. Exports to Russia are viewed as low risk operation since all rejected shipments can be sold on domestic market. Some Ukrainian exporters test the market for offal in China, Mongolia, and Vietnam, and ready-to-eat products in Moldova. Shipments to these countries are not expected to be big.

Export perspectives for EU remain bleak despite massive investments into food safety conducted by selected Ukrainian meatpackers in 2008-11. Many pork and beef producers failed DG SANCO inspections in 2009-10. Only few vertically integrated holding continued facility improvements in hope to get market access. Beside sanitary reasons, there are major problems with quotas that EU is ready to offer as a part of future FTA. According to GOU the negotiation process slowed down due to major disagreements on agricultural issues including meat import quotas. The "Meat Business" magazine published the unofficial positions that show ambitious export plans for Ukrainian producers. Ukraine would like to get a 24,000 ton zero duty export quota for beef and a 30,000 ton quota for pork. EU is ready to offer only 6,000 and 15,000 tons respectively with some future expansion possibility. According to Ukrainian officials, EU explained its position by inability of Ukrainian producers to fulfill requested quotas.

Trade estimates for 2010 were revised to converge with official statistics. The trade forecast for the remaining months of 2011, as well as for 2012 remains subject to trade policy changes and possible new TBT introductions.

Section II. Statistical Tables

Ukraine Cattle PSD Table (1,000 Head*)

Animal Numbers, Cattle Ukraine	2010		2011		2012
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012
	USDA Official	New Post	USDA Official	New Post	New Post
Total Cattle Beg. Stks	4,950	4,827	4,871	4,494	4,320
Dairy Cows Beg. Stocks	2,780	2,737	2,775	2,631	2,560
Beef Cows Beg. Stocks	50	41	50	36	32
Production (Calf Crop)	2,600	2,644	2,550	2,550	2,470
Intra-EU Imports	0	0	0	0	
Other Imports	1	1	1	1	1
Total Imports	1	1	1	1	1
Total Supply	7,551	7,472	7,422	7,045	6,791
Intra EU Exports	0	0	0	0	0
Other Exports	0	0	0	0	0
Total Exports	0	0	0	0	0
Cow Slaughter	0	0	0	0	0
Calf Slaughter	0	0	0	0	0
Other Slaughter	2,600	2,906	2,600	2,655	2,526
Total Slaughter	2,600	2,906	2,600	2,655	2,526
Loss	80	72	72	70	65
Ending Inventories	4,871	4,494	4,750	4,320	4,200
Total Distribution	7,551	7,472	7,422	7,045	6,791
CY Imp. from U.S.	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0

*These are not USDA official numbers

Ukraine Beef and Veal PSD Table, 1,000 CWE (1,000 Head)*

Meat, Beef and Veal Ukraine	2010		2011		2012
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012
	USDA	New	USDA	New	New Post

	Official	Post	Official	Post	
Slaughter (Reference)	2,600	2,906	2,600	2,655	2,526
Beginning Stocks	15	15	15	15	15
Production	400	428	400	390	370
Intra-EU Imports	0	0	0	0	0
Other Imports	5	5	5	6	8
Total Imports	5	5	5	6	8
Total Supply	420	448	420	411	393
Intra EU Exports	0	0	0	0	0
Other Exports	19	19	25	15	10
Total Exports	19	19	25	15	10
Human Dom. Consumption	386	414	380	381	368
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	386	414	380	381	368
Ending Stocks	15	15	15	15	15
Total Distribution	420	448	420	411	393
CY Imp. from U.S.	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0
Balance	0	0	0	0	0

**These are not USDA official numbers*

Ukraine Swine PSD Table (1,000 Head*)

Animal Numbers, Swine Ukraine	2010		2011		2012
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012
	USDA Official	New Post	USDA Official	New Post	New Post
Total Beginning Stocks	7,577	7,577	8,400	7,960	7,570
Sow Beginning Stocks	518	518	540	518	550
Production (Pig Crop)	8,700	8,176	9,160	7,800	8,200
Intra-EU Imports	0	0	0	0	0
Other Imports	50	86	50	60	60
Total Imports	50	86	50	60	60
Total Supply	16,327	15,839	17,610	15,820	15,830
Intra EU Exports	0	0	0	0	0
Other Exports	1	1	0	0	0
Total Exports	1	1	0	0	0
Sow Slaughter	0	0	0	0	0
Other Slaughter	7,180	7,117	8,010	7,530	7,230
Total Slaughter	7,180	7,117	8,010	7,530	7,230
Loss	746	761	800	720	750
Ending Inventories	8,400	7,960	8,800	7,570	7,850
Total Distribution	16,327	15,839	17,610	15,820	15,830
CY Imp. from U.S.	0	7	0	2	2
CY. Exp. to U.S.	0	0	0	0	0
Balance	0	0	0	0	0

**These are not USDA official numbers*

Ukraine Pork PSD Table, 1,000 CWE (1,000 Head)*

Meat, Swine Ukraine	2010		2011		2012
	Market Year Begin: Jan 2010		Market Year Begin: Jan 2011		Market Year Begin: Jan 2012
	USDA Official	New Post	USDA Official	New Post	New Post
Slaughter (Reference)	7,180	7,117	8,010	7,530	7,230
Beginning Stocks	22	22	22	22	22
Production	650	631	730	650	640

Intra-EU Imports	0	0	0	0	0
Other Imports	146	147	150	90	100
Total Imports	146	147	150	90	100
Total Supply	818	800	902	762	762
Intra EU Exports	0	0	0	0	0
Other Exports	1	1	1	16	13
Total Exports	1	1	1	16	13
Human Dom. Consumption	795	777	879	724	727
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	795	777	879	724	727
Ending Stocks	22	22	22	22	22
Total Distribution	818	800	902	762	762
CY Imp. from U.S.	0	9	0	3	5
CY. Exp. to U.S.	0	0	0	0	0
Balance	0	0	0	0	0

**These are not USDA official numbers*