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GAIN Report

Global Agricultural Information Network

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Report Highlights:

Ukraine's poultry industry will continue to grow in 2011/12 at a significant rate. In 2011, Ukraine is likely to decrease its imports to record low levels and become a net exporter of poultry products, as productive investments continue. The U.S. share of Ukrainian market will drop considerably due to local production growth. The need to export will push the Ukrainian industry to Central Asia and Far East markets. Ukraine's domestic market will remain price sensitive with limited demand for imported poultry offal. Ukraine is likely to remain an exporter and an importer of poultry at the same time as in 2010/11.

Executive Summary

The Ukrainian poultry industry is expected to continue its expansion in 2011/12, although at somewhat slower rate. Major industry players have made significant investments in vertical integration in an attempt to moderate risks from growing feed prices and government regulatory policies. Expansion of arable land area, investments in agricultural machinery and new feed mills construction deviate some financial resources from poultry production. Considerable funds are invested into construction of new production facilities, which could lead to even bigger production increase in 2013-2015.

The U.S. industry should be aware that Ukraine may turn from a market into strong competitor, primarily in Central Asia and Far East. Ukrainian producers currently do not supply poultry to Russia, but if the market were to open up, Ukraine will have a significant competitive advantage due to geographical proximity and ability to supply chilled product.

Poultry imports in 2011/12 are expected to contract significantly. The contraction is expected to exceed the forecast made in the 2010 Annual Report. Growing domestic production was able to replace chicken leg quarters of U.S. origin. Reported non-transparent import procedures, import permits, customs valuation, and indifference to existing trade barriers also played a role.

Domestic demand is satisfied by Ukrainian producers and imports. Industry expects only little additional demand in the near future despite disposable income recovery after crisis drop. Poultry will remain to be the cheapest and the most accessible protein for Ukrainian consumers.

Section I. Narrative

Production

Poultry production in Ukraine will continue to grow in 2011 and 2012. Major poultry producers are investing in new production facilities, processing, feed mills construction, storage facilities, arable land acquisitions (rent of land titles), agricultural machinery, and other inputs. Due to such a broad investment spectrum, a production impact is expected only in 2-3 years or even later. The industry gradually moved from 1-2 years to 3-5 years investment horizon. The investments focus changed from poultry production to broad vertical integration and production risk mitigation.

Concentration of Ukrainian poultry industry continues to increase. Three biggest producers occupy 72-75 percent of the market with the two biggest producers controlling almost 50 percent.

The bumper crop of feed grains expected in 2011 will help Ukrainian producers to 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 depressed even further due to export duty introduced on July 1, 2011 and supposed to last till the end of the calendar year.

The Government of Ukraine also canceled Value Added Tax (VAT) export refunds for grain traders. Depressed grain prices will help smaller poultry producers to maintain profitable operations from 2011 into early 2012. The bigger producers will somewhat suffer from lower profits received by their crop enterprises, but will continue investments into feed crops to moderate future price shocks. This year's situation will prevent big producers from gaining

additional profits from grains and oilseeds, but they would benefit from their investments in the long run.

In 2011 the biggest Ukrainian producer, Myronivsky Hliboproduct (MHP), will show only modest production increases. The company is actively expanding its land assets and acquiring additional plots in anticipation of land reform in early 2012. Existing facilities operate at full capacity so production increases are possible only through marginal production efficiency growth.

According to the company, in 2011 it will invest additional \$350 million into Ladyzhynsky feed production and storage facility and its big new production facility in Vynnytsa Oblast. This new facility should be able to add 220 thousand tons of processed poultry to company's existing 360 thousand tons production capacity by 2015. Their first line is expected to become operational in 2013, and the second one in 2014. Previously the company announced that their Vynnytsa facility will be even bigger with total capacity of 440 thousand tons (two additional production lines). Success of this new ambitious project will depend entirely on company's ability to discover additional export markets. The Ukrainian domestic market will not be able to increase consumption significantly by 2013.

The second largest poultry producer, Complex Agromars Ltd., is planning to increase its production in 2011 by 25 percent to 180 thousand tons. Agromars is actively building its capacity in an attempt to keep up with MHP. Additional investments in 2011 should increase company capacity to 300 thousand tons by 2012-13. In parallel, Agromars is investing into rendering facility to calm tension with local rural communities close to their main production site near Kyiv and constructing a soybean crushing facility in Poltava Oblast. The later will help to ensure soybean meal supplies and would further diversify company's business.

The third leading producer, Ptahocombinat Dneprovsky, has 6.5 percent poultry market share. Although company is vertically integrated and possesses a modern facility built in 2005, its share in the near future may shrink. Company operates on regional markets in central Ukraine and has no nation-wide brands. The company realizes vulnerability of its position and looking for export markets along with its bigger competitors.

The 2011 opens a new era for Ukraine's poultry industry. Existing production capacity will satisfy domestic demand and further growth will be significantly complicated. Further expansion will depend on export market discovery and risks associated with exporting will be significantly greater than domestic market risks. Small producers occupying 14 percent of the market will face increased pressure from the two major producers. Their ability to grow will be very limited. Previously hardly noticeable, price competition will decrease trade margins and lead to industry's profitability decrease. Numbers in the PSD table have been adjusted to these new expectations.

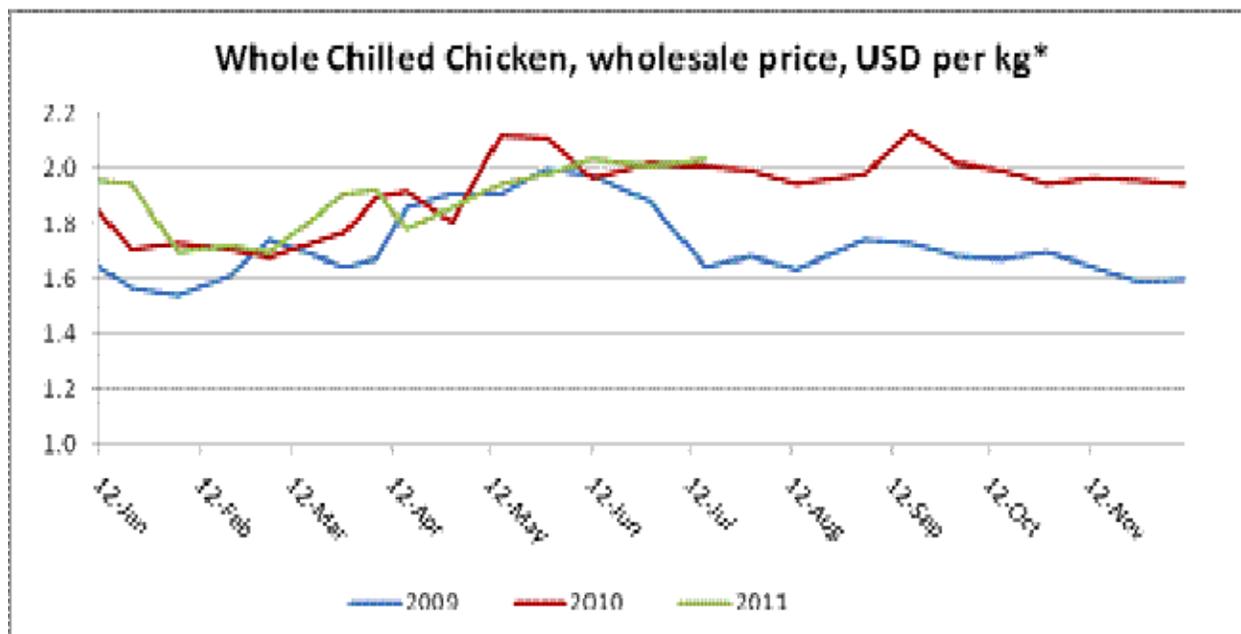
Direct state support of Ukrainian poultry industry remains negligible. Once massive, state direct support programs were curtailed in 2008. Indirect support continues in a form of foregone budget revenue programs (single agricultural tax, Value Added Tax exempts).

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 the 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 household

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. In 2010 and 2011 chilled chicken prices remained rather stable despite growing input costs. The 2009 dollar denominated price looks depressed only due to abrupt currency drop in the end of 2008. In that period producers had to absorb a loss. Increased production should increase price competition, although graph below provides no evidences that would support this statement. Such price behavior is common for markets with restricted competition.



*Ukrainian Agrarian Business Club price surveys, own calculations

Trade

Trade in poultry will remain to be dependent on Ukraine's internal import regulations. After significant import rise that followed Ukraine's accession to the WTO in 2008, imports are on constant decline. Market players attribute this decline mostly to the local production growth and existing technical barriers to trade. Nowadays it is said to be rather difficult to obtain import permit from Ukrainian Veterinary and Phytosanitary Service and custom clear the product. Please see last year's [Poultry and Products Annual Report, Kiev, Ukraine, 10-18-2010](#) GAIN Report's Trade Section for more information on application of these trade barriers.

Ukraine generally does not use veterinary trade barriers related to testing to limit imports through non-scientific import requirements, although existing import requirements differ from "best practices" in the rest of the world and leave space for interpretation. See [Mandatory Veterinary Testing Requirements, Kiev, Ukraine, 2-8-2011](#) GAIN Report for more information.

Any poultry shipment can be stopped at any time due to "de facto" zero tolerance for salmonella or unsatisfactory mesophilic aerobes count test result. FAS/Kyiv is aware of only one case when this barrier was used, but later resolved.

Imports

In 2011 Ukraine is expected to have a historic low in poultry imports with further decline forecast for 2012. Most of the trade drop is attributed to greatly decreased imports from the U.S. that followed significant redistribution of market shares between the domestic producers and importers. Due to this shift US exporters may lose a significant chunk of the Ukrainian market in 2011.

Traditionally (prior to 2011) frozen imported U.S. poultry was sold for further processing to Ukrainian sausage, smoked products and bologna makers. Domestically produced chilled poultry (whole birds and parts) was marketed through a variety of retail channels and only partially satisfied demand of domestic processors for cheap raw meat. Imported U.S. chicken leg quarters were priced under the domestic product and were in indirect competition due to difference in market segments. Whole chickens from Brazil could not compete with Ukrainian whole birds and had to leave the market in mid 2000s when Ukrainian production started to rise. Poultry from EU countries could not compete with Ukrainian chickens either, with the exception of Mechanically Deboned Meat (MDM) which, similar to U.S. chicken leg quarters, faced limited internal demand in the EU. Demand for EU offal in Ukraine existed only in the lowest processing market segment. Sales of EU poultry were possible only at very low price.

In 2011 Ukrainian producers continued to increase output facing limited export opportunities. Due to lack of markets for further expansion, major market players turned toward domestic low-margin segments. Currently this expansion is aimed at leg quarters segment, where U.S. exporters used to dominate. The lowest market segment where EU producers sell their MDM is so far unattractive for the Ukrainian industry. This is likely to change in near future, when Ukraine increases its export of parts. Exporters from the EU may continue exports for some time before new facilities come into production in central Ukraine. In this way, 2011 trade in poultry products will shift from HS 0207142000 (Poultry Quarters and Halves in Ukrainian HS classification) to HS 0207141000 (Poultry Offal). Only insignificant quantities of imported poultry leg quarters will be present on the market.

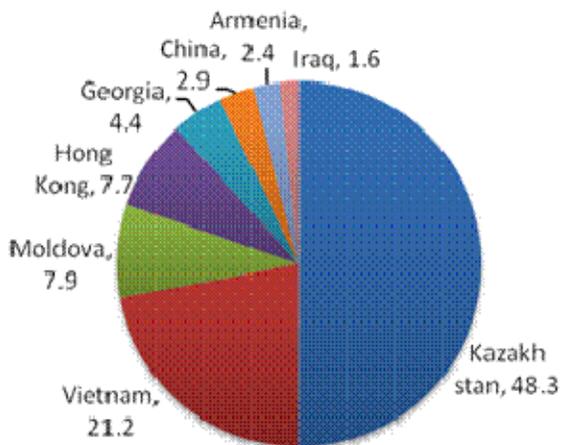
Imports to Ukraine can decrease even more due to risky nature of export markets where Ukraine sells its product. See Export subchapter below for more explanations. Should any trade problem arise in any of the markets, Ukrainian poultry for export would return home, flooding the remaining market niche.

Exports

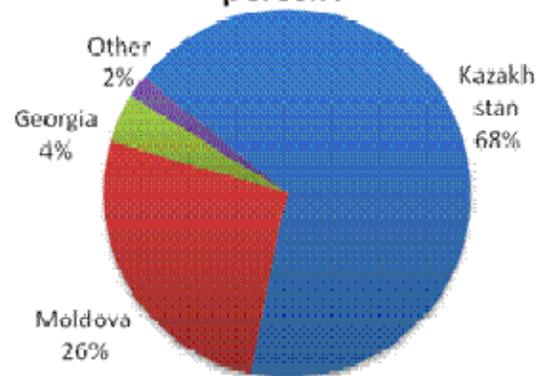
Major Ukrainian poultry producers started foreign markets expansion 3-4 years ago. Quickly growing production and satisfied domestic demand makes export expansion the only growth opportunity in the years to come. No considerable domestic market space will be left for Ukrainian producers beyond 2011, when they are expected to take over the markets previously occupied by U.S. chicken leg quarters. Smaller producers with no foreign market access will quickly find themselves in competitive disadvantage.

Export market structure developed by 2010 is shown on the diagram. Kazakhstan and Moldova became the major importer of poultry meat. Vietnam and Hong Kong became the major destination for chicken paws. The industry did not reach agreements, but announced about market access negotiations with United Arab Emirates and Saudi Arabia. Export numbers in PSD tables were adjusted to exclude paws (Ukrainian HS 0207149900) exports to Vietnam, China and Hong Kong. Definition of poultry used is indicated under each table or graph to avoid confusion.

Ukraine Poultry* Exports by Country in 2010, percent



Poultry Halves, Quarters and Offal Exports by Country of Destination in 2011, percent**



Source: Global Trade Atlas;

*Poultry is defined as HS 020711, 020712, 020713, 020714 and 160232

**Ukrainian HS Codes 0207141000 and 0207142000

Limited trade statistics available for 2011 suggests that share of the Kazakhstan market can exceed 50 percent. Such trade structure makes Ukrainian poultry industry dependent on import demand in Kazakhstan and the political situation in the Custom Union (CU) Kazakhstan belongs to. Markets of non-CU countries are viewed as small, but potentially much more stable. Ukraine has formal Free Trade Agreements (FTAs) with most Former Soviet Union (FSU) countries that provide Ukrainian poultry with some trade protection. Although it needs to be noted, that most of FTAs signed in early 1990's have only declarative provisions and no conflict resolution mechanism. Export perspectives to the CU member countries are unclear.

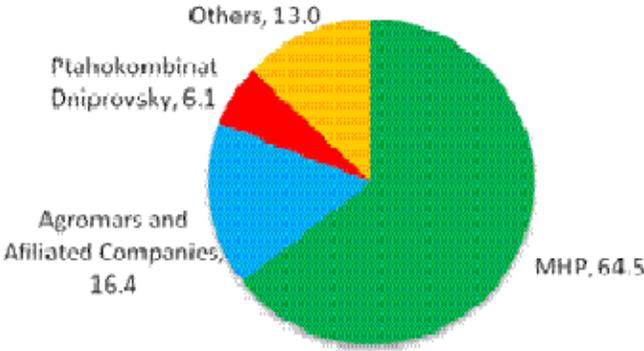
The Ukrainian poultry industry so far ships almost no poultry to one of the biggest poultry markets in the world – the Russian Federation. The poultry market of neighboring Russia seems to be well developed by other exporters, offers attractive prices and market potential, and is in close geographical proximity. Ukrainian producers can supply it with higher quality chilled products and use existing poultry facilities in Eastern Ukraine to supply adjacent regions of Russia. Ukraine and Russia have an FTA that keeps Ukrainian poultry outside of Russian import quotas. None of the competitors have similar competitive advantages.

Prior to 2010 exports to Russian Federation were restricted by export ban introduced almost five years ago due to a Highly Pathogenic Avian Influenza outbreak. Upon removal of the ban, the Russian sanitary authority (Rosselkhoz nadzor) conducted multiple inspections of Ukrainian poultry producers allowing exports from three production facilities (2 of MHP and 1 of Agromars). Despite MHP's public declarations, its exports to Russia are insignificant. Exports of Agromars never picked up due to quick delisting of its facility officially announced on July 15, 2011. At this point Russian [list of approved facilities](#) contains only two MHP production sites and one cold storage facility.

Notably, the most recent inspection conducted by Rosselkhoz nadzor was officially positioned as Custom Union inspection. This means that all restrictions imposed will be automatically

accepted by CU countries including Kazakhstan. This way Rosselkhoznadzor and concomitantly Kazakhstan Veterinary Service received a tool regulating access to each other's markets. This fact along with overwhelming share of Kazakhstan in Ukraine's poultry exports make Ukrainian industry highly vulnerable to Russian inspections.

Ukraine's Poultry* Exports in 2010 by Company, Percent



**Poultry is defined as HS 020711, 020712, 020713, 020714 and 160232
Source: Meat Business Magazine No.6, June 2011;*

Russia's aggressive import restriction policies and heavy subsidies to its own production do not allow the Ukrainian industry to consider Russia as a long-term export destination. Interestingly, Kazakhstan may also be unstable in the long run as Kazakh poultry producers enjoy similar competitive advantages as Ukrainian ones: abundance of cheap grains, cheap energy and labor force.

Significant production growth potential and limited access to other export markets will force Ukraine to expand exports to Kazakhstan in 2012. There Ukrainian poultry would compete with US exports.

Export perspectives for EU remain bleak despite massive investments into food safety conducted by Ukrainian producers in 2008-11. In 2011 Ukraine is still not able to export any poultry products to the EU. The result is probably somewhat disappointing for Ukrainian producers and state officials who gave optimistic statements a year ago after rather successful inspections by DG SANCO. Now the biggest hope for Ukrainian producers is in speedy conclusion of a FTA with the EU. According to GOU the negotiation process slowed down due to major disagreements on agricultural issues including poultry. The "Meat Business" magazine published unofficial positions that show ambitious export plans for Ukrainian poultry producers. Ukraine would like to have an 80 thousand ton zero duty export quota, while EU is ready to offer only ten thousand tons with some future expansion opportunities. According to Ukrainian officials, EU explained its position by inability of Ukrainian producers to fulfill requested quotas. If negation last for a while longer, Ukrainian poultry producers will be able to cancel this argument.

Trade estimates for 2010 were revised to converge with official statistics. The trade forecast for the remaining months of 201, as well as for 2012 remains subject to trade policy changes and possible new TBT introductions.

Section II Statistical Tables

Broiler Meat PSD Table*

Poultry, Meat, Broiler 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	USDA Official	New Post
Inventory (Reference)	0	0	0	0		0
Slaughter (Reference)	0	0	0	0		0
Beginning Stocks	0	0	0	0		0
Production	670	733	660	810		880
Whole, Imports	0	0	0	0		0
Parts, Imports	144	144	145	40		30
Intra-EU Imports	0	0	0	0		0
Other Imports	0	0	0	0		0
Total Imports	144	144	145	40		30
Total Supply	814	877	805	850		910
Whole, Exports	33	23	35	35		60
Parts, Exports	0	0	0	0		0
Intra EU Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
Total Exports	33	23	35	35		60
Human Consumption	781	854	770	815		850
Other Use, Losses	0	0	0	0		0
Total Dom. Consumption	781	854	770	815		850
Total Use	814	877	805	850		910
Ending Stocks	0	0	0	0		0
Total Distribution	814	877	805	850		910

MIL HEAD, 1000 MT, PERCENT, PEOPLE, KG

**Not Official USDA Data*

Exports of chicken paws (Ukrainian HS 0207149900) to China, Vietnam and Hong Kong are excluded from the export numbers.

Ukraine's Poultry Imports* January - May, tons

Partner Country	Quantity			% Share			% Change 2011/2010
	2009	2010	2011	2009	2010	2011	
World	72045	45565	16096	100.00	100.0	100.0	- 64.7
Germany	8937	4696	2975	12.4	10.3	18.5	- 36.7
Netherlands	3830	3240	2707	5.3	7.1	16.8	- 16.45
Poland	1225	2106	2051	1.7	4.6	12.7	- 2.6
United Kingdom	1026	2076	1906	1.4	4.56	11.8	- 8.2

Belgium	2985	3896	1880	4.1	8.6	11.7	- 51.8
Hungary	4175	3174	1808	5.8	7.0	11.2	- 43.0
France	160	249	1138	0.2	0.6	7.1	357.3
United States	48817	25579	728	67.8	56.1	4.5	- 97.2
Italy	297	475	359	0.4	1.0	2.2	- 24.4
Denmark	10	0	240	0	0	1.5	0
Kazakhstan	0	0	240	0	0	1.5	0
Brazil	540	57	54	0.8	0.1	0.3	- 5.6
Belarus	0	0	11	0	0	0	n/a
Russia	24	17	0	0	0	0	- 100.00
Spain	21	0	0	0	0	0	0.00

*Poultry is defined as HS 020711, 020712, 020713, 020714 and 160232

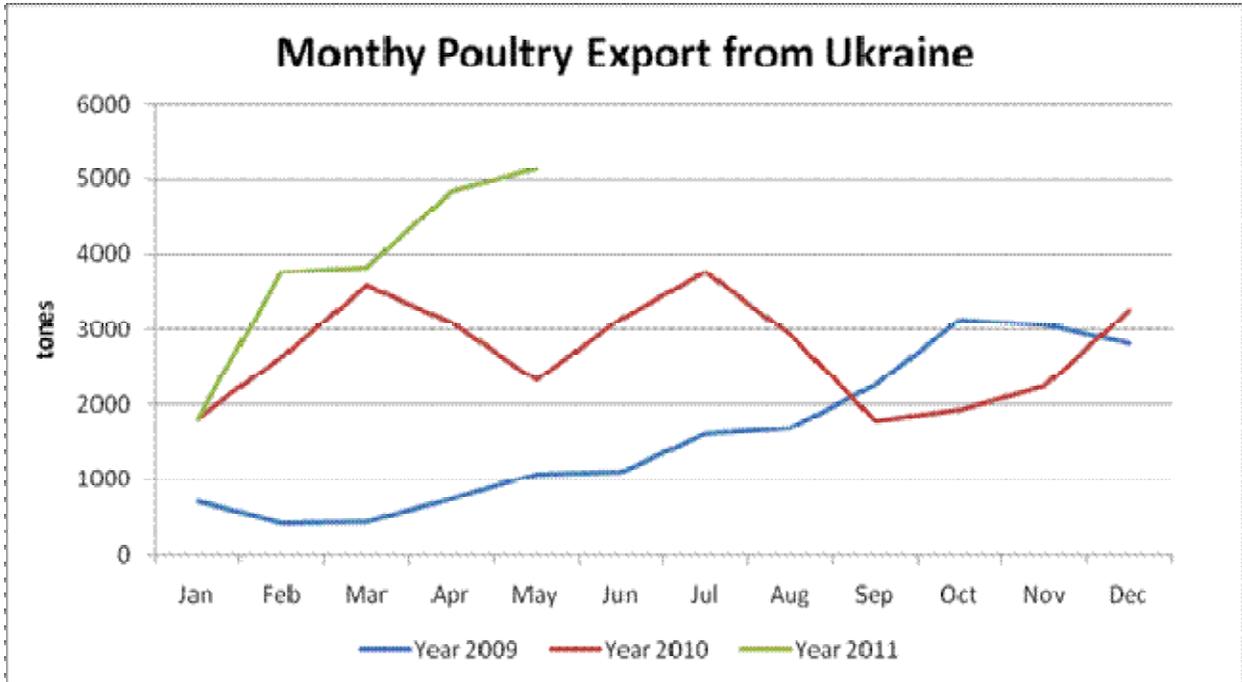
Source: Global Trade Atlas

Ukraine's Poultry Exports, January-May, tons

Partner Country	Quantity			% Share			% Change 2011/2010
	2009	2010	2011	2009	2010	2011	
World	3404	13466	19387	100	100	100	44.0
Kazakhstan	1681	6720	9723	49.4	49.9	50.2	44.7
Vietnam	1482	2560	3131	43.5	19.0	16.2	22.3
Moldova	6	783	2822	0.2	5.8	14.6	260.3
Georgia	127	395	806	3.7	2.9	4.2	104.0
Jordan	0	250	774	0	1.9	4.0	209.5
Hong Kong	0	1495	550	0	11.1	2.8	-63.2
Russia	12	2	424	0.4	0	2.2	n/a
Kyrgyzstan	0	134	360	0.0	1.0	1.9	168.1
Armenia	40	374	357	1.2	2.8	1.8	-4.4
Others	57	748	434	1.7	5.6	2.2	n/a

*Poultry is defined as HS 020711, 020712, 020713, 020714 and 160232

Source: Global Trade Atlas



Source: Global Trade Atlas; Poultry is defined as HS 020711, 020712, 020713, 020714 and 160232