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Ukraine Proposes Restrictive Import Regulations for Animal Products

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Agricultural Situation

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Report Highlights:

Starting January 14th, 2010, Ukraine's Veterinary Service may require individual enterprise inspection for all suppliers of products of animal origin, including U.S., for products imported into Ukraine. The wording of this new regulation is not clear, but conversations with veterinary officials revealed that U.S. poultry, red meat, fish, dairy and pet food exports are going to be impacted. This regulation may reduce bilateral trade in meat products through a significant reduction of suppliers, complicated logistics and inspection costs that exporters would incur.

General Information:

On May 20th, 2009 the State Committee for Veterinary Medicine introduced Order No. 149 amending Order No. 23 adopted on May 21st, 2001. The update introduced a number of requirements interpreted by the State Veterinary Inspection Service (VS) of Ukraine as requirements for individual inspection of export facilities in the countries from which the products originate. This individual inspections requirement was delivered by VS to all major Ukrainian importers.

The wording of the main paragraph of Order No. 149 follows:

QUOTE. Import of raw animal products, feed additives, premixes, feeds for livestock and other products of animal origin to Ukraine's territory is permitted only after the preliminary inspection of epizootic situation, requirements set for production facilities and processing, storage conditions and other requirements in the countries the product originates from. The inspections are to be done in accordance with the existing legislation by specialists of the Veterinary Service. An official conclusion issued by the Veterinary Medicine Service of Ukraine must be issued. END OF QUOTE

Order No. 149 omitted a deadline for introduction of this new requirement, so subsequently the deadline was established by the Letter of the State Committee for Veterinary Medicine No. 15-3-2-16 / 3863 issued on July 7th, 2009. The letter established an extremely short compliance period with the new regulation to be enforced as of July 23rd 2009. The two week time period granted by Ukrainian VS was insufficient for any foreign facility inspection. Neither a commodity list (by HS Code) subject to the new regulation, nor an explicit list of requirements for foreign processing facilities was published. Formal notification of Ukraine's trading partners was likewise not completed. One day before the deadline Ukrainian VS postponed the enforcement of this new regulation until January 14th, 2010.

Reasons for the New Regulation

Order No. 23 (as well as amending Order No. 149) of the State Committee for Veterinary Medicine name BSE as the reason for new import requirement. The legal title for Order No. 23 is "On Urgent Measures Aimed at Prevention and Elimination of BSE and Other Prion Infections in Cattle". Neither Order explains how the threat of introduction of BSE can be addressed through the inspection of producers of all products of animal origin including fish, dairy products, poultry and pork. It is not clear what other concerns are addressed through the proposed inspections.

Formal Notification of Trading Partners

On August 3rd, Ukraine's Notification and Enquiry Point issued a legal Notification [G/SPS/N/UKR/3/Rev.1](#) found on the Official WTO Website (Committee on Sanitary and Phytosanitary Measures). Paragraph 3 of the Notification contains a list of animal products subject to the new regulation:

0201 10	Carcasses and half-carcasses
0201 20	Other cuts with bone in
0201 30	Boneless

0202 10	Carcasses and half-carcasses
0202 20	Other cuts with bone in
0202 30	Boneless
0210 20	Meat of bovine animals
0210 90	Other, including edible flours and meals of meat and meat offal
0511 99	Embryos of bovine animals, other
1502 00	Fats of bovine animals, sheep or goats, other than those of heading Lard stearin, lard oil, oleostearin, oleo-oil and tallow oil, not emulsified or mixed or otherwise prepared
1602 50	Of bovine animals
1602 90	Containing meat or meat offal of domestic swine, uncooked; mixtures of cooked meat or offal and uncooked meat or offal, other
0204 10	Carcases and half-carcases of lamb, fresh or chilled
0204 21	Carcases and half-carcases
0204 22	Other cuts with bone in
0204 23	Boneless
0204 30	Carcases and half-carcases of lamb, frozen
0204 41	Carcases and half-carcases
0204 42	Other cuts with bone in
0204 43	Boneless
0204 50	Meat of goats
0205 00	Meat of asses, mules or hinnies
0206 10	Of bovine animals, fresh or chilled
0206 21	Tongues
0206 22	Livers
0206 29	Other

At the same time both Paragraph 3 and Paragraph 6 contain a description of the products subject to the new regulation. The description is significantly wider than the one provided with a list of HS Codes including QUOTE: Raw animal products, feed additives, premixes, cattle feed, other products of animal origin END OF QUOTE

Informally Ukraine's Notification and Inquiry Point as well as Veterinary Service acknowledged the discrepancy. A Veterinary Service representative also stated that a wider definition should be used to describe the scope of the new import regulation. At the same time FAS/Kiev was unable to get the explicit list of affected products. USDA has formally requested specifics.

The comment period for WTO members and interested parties will expire on October 2nd, 2009.

Economic Impact and Possible Trade Outcomes

Due to the imprecise description of the products affected the impact of the new regulation on bilateral US-Ukraine trade is unclear. The trade can range from \$ 50,000 (if the new regulation covers Bovidae live animals and products) to \$302 million if all dairy, fish, poultry and other products of animal origin are impacted.

A requirement to inspect processing facilities will add significant additional costs to US exporters.

Ukrainian VS made it clear for interested importers that they will have to cover all inspection costs including travel and per diem.

Inspection criteria are not yet clear; an explicit list of requirements for foreign facilities is not publicly available. This creates significant additional risks for importers and provides no guarantee that investments in individual enterprise audits would ever be paid back. Undefined audit requirements also create a significant corruption incentive for all parties involved.

In foreign meat trade middlemen are frequently used to mitigate trade risks for U.S. producers and to support importers through delayed payments. Middlemen often gather allotments for a single commercial shipment from 10-30 production facilities at a time. A need to inspect all of them will add a significant cost for Ukrainian buyers. Given high price-sensitivity of demand in Ukraine this will decrease trade significantly. In certain time periods, when there is demand from Ukrainian customers, goods at issue may not be available from inspected facilities. In this situation traders would have to pay significant premiums to get a product from the approved facilities.

It will be very difficult to avoid "free riding" for traders who have not paid for inspections, but are willing to sell product from approved facilities. Ukrainian legislation at this point does not contain a legal tool that would restrict trade for selected companies only.

To this point the new regulations raise more questions than provide answers. The purpose of this report is to raise awareness among industries that may suffer from the uncertainty during implementation of these new rules and from the consequent associated costs should these rules be finalized.