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Report Highlights:

Ukraine milk, cheese, butter, whole dry milk production will decrease in 2000 after a period of relatively stable production and even some improvements during 1998 and the first quarter of 1999. Production of milk will remain unprofitable resulting in further cow slaughter; this will not, however, create import opportunities for U.S. dairy products because of high import duties and low consumer purchasing power in Ukraine. Despite the projected decrease in milk production, ice cream and yogurt output is expected to continue to rise in 2000 in response to higher consumer demand, at the expense of other dairy products.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Warsaw [PL1], UP

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Executive Summary

Fluid milk production is expected to decrease in CY 2000 due to decreasing cow inventories and low productivity in the collective farm sector. This decrease will occur after a period of relatively stable milk production during 1998 and the first quarter of 1999. Ukrainian dairies may experience difficulties with milk procurement because private producers, who accounted for 68 per cent of the total milk production in 1998, are dissatisfied with low procurement prices and would prefer to sell milk and home-made dairy products directly in city and village open-air markets.

Hard cheese, butter and whole dry milk powder output will be lower in 2000 and reflect reduced consumer purchasing power. Production of non fat dry milk increased in response to higher exports to Russia and Japan in 1998 and 1999, but is expected to decrease in 2000 due to growing competition in those markets from the US, Lithuanian and Polish suppliers. Ice cream, yogurt, sour cream, kephir production in 2000 should increase in response to increasing consumer demand for lower-priced dairy products.

Fluid milk, hard fat cheese and whole dry milk powder consumption will decrease due to reducing production. Non fat dry milk consumption in 2000 will remain at this year level. The Government of Ukraine's (GOU) plans to supply butter to Russia in 2000 under the intergovernmental agreements as payment for gas and fuel previously supplied to Ukraine are uncertain because the GOU could not fulfill its obligations in 1999. Cheese and whole milk powder exports will continue, mostly to Russia, but export demand will not be strong enough to offset reduced consumer demand nor revive domestic production.

Imports of dairy products, mostly from the EU and Central European countries, are expected to decrease further because of high import duties and limited consumer incomes. Ice cream and yogurt imports will experience the most significant reductions since increased domestic production can meet consumer demand for these products. Ukraine is not a member of the World Trade Organization and has maintained high import tariffs to protect its domestic industries. High import tariffs on dairy products will be maintained by the GOU in an effort to support domestic producers.

PS&D Table, Dairy, Milk, Fluid (1,000 MT; 1000 Head)

	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Cows In Milk	6250	6265	6220	5864	0	5700
Cows Milk Production	13700	13800	13600	12500	0	11600
Other Milk Production	1100	750	1100	750	0	750
TOTAL Production	14800	14550	14700	13250	0	12350
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	1	0	0	0	0
TOTAL Imports	0	1	0	0	0	0
TOTAL SUPPLY	14800	14551	14700	13250	0	12350
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	2800	6601	2800	6150	0	5750
Factory Use Consum.	11050	7000	11000	6200	0	5700
Feed Use Dom. Consum.	950	950	900	900	0	900
TOTAL Dom. Consumption	14800	14551	14700	13250	0	12350
TOTAL DISTRIBUTION	14800	14551	14700	13250	0	12350
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

Ukraine's milk production is expected to decrease to 1.16 MMT 2000 due to an expected decrease in both cow inventory and productivity. According to official statistics, the profitability of industrial milk production in the collective farm sector decreased to minus 47 percent in 1998 and has led to continued cow slaughter in 1999. Milk production in 1999 is now estimated to be lower. As of September 1, 1999, the total number of cows was 5,807 thousand head - 6 % less than for the same date last year. This decrease was solely attributed to the collective farm sector as the individual household producers increased cow inventories from 3,032 thousand head to 3,045 thousand head as of September 1, 1999 compared with the same date this year.

Although accounting for 48 percent of total cow inventories, the collective farm sector produced only 38 percent of milk in 1998. It is projected that cow numbers in the public sector will continue to decrease in 2000 while cow inventories in the private sector will remain the same with production limited, however, by low concentrate and the availability of roughage feeds.

The figure for fluid cow milk production for 1998 has been increased according to official statistics and due primarily to higher milk productivity in the private sector. Goat and sheep milk production figures were decreased to 750 TMT,

assuming that she-goat and ewe inventories decreased an estimated 30 per cent over the last three years.

Consumption

Despite the existing high demand for milk, low purchasing power of the population limits incentive to produce any highly processed dairy products. It is expected that milk utilization for butter, cheese and dry whole milk will decrease compared with revised 1999 and 1998 levels. Milk utilization for ice cream, yogurt, kephir and other dairy products that ensure faster capital turnover will increase in 1999 and 2000. According to official statistics, per capita consumption of milk and dairy products has decreased from 373 kilograms (fluid milk equivalent) in 1990 to 210 kilograms in 1997. The first increase in per capita milk consumption since 1990 was recorded in 1998 when it increased up to 213 kilograms.

Projected declines in both cow inventories and productivity will result in lower fluid and factory milk utilization in 2000. It will become more difficult for dairy factories to procure milk from private farmers as lower purchasing prices and frequent payment delays cause individuals to sell milk, sour cream, cottage and soft cheeses and other home made dairy products directly to customers through open markets. It has been estimated that private farmers sold only 23 percent of the 2.3 million tons purchased by large scale processors during Jan.-Sept. 1999. Therefore, a continued public sector decrease in production may lead to even lower milk procurement rates than dairy processors are now experiencing. Taking into account low milk procurement levels by processing enterprises and the production of dairy products at industrial type on-farm processing facilities, factory milk consumption for 1998-2000 is estimated lower while fluid milk consumption estimate is increased.

Prices Table, Milk, Fluid

Prices in	UAH	per uom	1 liter
Year	1998	1999	% Change
Jan	0.83	0.98	18.07%
Feb	0.83	0.99	19.28%
Mar	0.8	1	25.00%
Apr	0.8	1.03	28.75%
May	0.79	1	26.58%
Jun	0.77	0.97	25.97%
Jul	0.75	0.96	28.00%
Aug	0.76	0.99	30.26%
Sep	0.79		
Oct	0.83		
Nov	0.9		
Dec	0.94		
Exchange Rate	4.39	Local currency/US \$	
Date of Quote	8/27/99	MM/DD/YYYY	

Notes: 1. 3% fat content, not UHT milk price in retail trade
 2. Ukrainian hryvna (UAH) devalued from UAH 2.06/US\$1 on June 5, 1998 to UAH 4.46/US\$1 on October 1, 1999 (National Bank of Ukraine Exchange Rates).

Trade

Most fluid milk imported into Ukraine fluid milk is UHT consumer ready milk. Imports of UHT milk into Ukraine have declined significantly. It is projected that milk imports will continue to decrease in CY 2000 since Ukrainian dairies which have purchased modern processing and packaging equipment and can easily satisfy domestic demand for UHT milk. Fluid milk imports during Jan.-June of 1999 were 172 MT compared with 246 MT imported during the same period in 1998.

**Import Trade Matrix, Dairy, Milk ,Fluid (MT;
Partial Year January-June)**

Imports for:	1997	1998	1998	1999
	Full	Full	Partial	Partial
U.S.	4	0	0	0
Others				
Germany	1869	173	108	28
Estonia	481	214	115	106
France	214	12	10	0
Netherlands	37	17	12	6
Denmark	17	2	0	9
Total for Others	2618	418	245	149
Others not Listed	12	1	1	23
Grand Total	2634	419	246	172

**Export Trade Matrix, Dairy, Milk ,Fluid (MT;
Partial Year January-June)**

Exports for:	1997	1998	1998	1999
	Full	Full	Partial	Partial
U.S.	0	0	0	0
Others				
Russia	2851	1142	488	53
Lithuania	120	0	0	0
Estonia	120	0	0	0
Moldova	93	0	0	0
Total for Others	3184	1142	488	53
Others not Listed	104	1	0	20
Grand Total	3288	1143	488	73

Ukraine exported a total of 1143 MT of milk in 1998 of which 1142 MT was sold to Russia. Exports of fluid milk in 1999 also decreased and are not expected to exceed 200 MT in 1999 as the quicker rate of the Russian ruble devaluation compared with the Ukrainian hryvna makes milk exports to Russia less profitable.

Policy

The GOU still supports the collective farming system, through both direct and indirect measures whereas the growing private sector is still in a rudimentary stage of development with the number of cows varying from one to three per household, little or no machinery used and no government support.

The value-added tax (VAT) refund program for those farmers who deliver milk to processing enterprises was extended by the Parliament through January 1, 2004. This program, which has been in existence since February 16, 1998, foresees that the revenue accumulated from VAT payments will be made by the processor to the farmers. On average, this payment equals \$19.6 per \$100 worth of milk delivered for processing. According to the legislation, the Ministry of Agro-Industrial Complex of Ukraine is allowed to use 30% of these funds for the purposes of livestock selection and genetics improvement. They must return the remaining 70% back to the farmer. This program has had some success, but only for large scale farms that sell milk to processors. A total of 74.8 million hryvnas (16.6 million dollars) was paid by the processors during Jan.-Sept. 1999, although farmers often complain that subsidy payments are delayed. As of

October 1, 1999, dairy processing enterprises owed farmers 9.5 million hryvnas (\$2.1 million) in subsidy payments.

Despite the fact the central government does not regulate milk prices, local administrations often set the maximum profit level for retailers who trade with dairy products at 20-25% in order to limit price growth and to protect people with low incomes.

PS&D Table, Dairy, Cheese (1,000 MT)

	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	1	1	1	3	1	1
Production	44	52	43	43	0	40
Intra EC Imports	0	0	0	0	0	0
Other Imports	3	3	2	1	0	1
TOTAL Imports	3	3	2	1	0	1
TOTAL SUPPLY	48	56	46	47	1	42
Intra EC Exports	0	0	0	0	0	0
Other Exports	1	4	1	3	0	1
TOTAL Exports	1	4	1	3	0	1
Human Dom. Consumption	46	49	44	43	0	40
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	46	49	44	43	0	40
TOTAL Use	47	53	45	46	0	41
Ending Stocks	1	3	1	1	0	1
TOTAL DISTRIBUTION	48	56	46	47	0	42
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

Cheese production in Ukraine is projected to decrease in CY 2000 due to decreasing milk production and its availability of to processors. Decreasing consumer purchasing power will not allow for prices increase necessary to provide additional incentives to produce more high quality cheese. Currently, processing capacity utilization rates for cheese and other dairy products are only 30-35 %.

During first eight months of this year, cheese production decreased by 4 % in comparison to the same period in 1998. According to official statistics, 34 TMT of fat cheeses were produced during Jan.-Aug, 1999. The previous estimate for CY 1999 cheese production remains unchanged. The cheese production estimate for CY 1998 has been increased based on official statistics. Ukrainian dairy processors took advantage of the rapid currency devaluation of August-December, 1998, which allowed domestic products to be more competitive with legal

and, especially, illegal imports.

Consumption

Consumption of cheese in CY 2000 is expected to decrease due to decreased consumer purchasing power. This decrease has already forced the population to switch to lower priced vegetable origin products (mostly grain products), from higher priced dairy, meat and poultry products. Consumers have started to prefer margarine and butter-margarine mixes vs. butter. The majority of the urban Ukrainians, with average monthly incomes of 180-250 hryvnyas (\$40-55), can only afford cheese once a month. The rural population, which has even lower monthly earnings, prefers homemade soft cheeses. Cheese consumption estimates for 1999 have been lowered based on an expected production decrease. Consumption and ending stocks in 1998 were revised based on higher officially reported numbers.

Prices Table, Dairy, Cheese (Retail Trade)

Prices in	UAH	per uom	1 kilogram
Year	1998	1999	% Change
Jan	7.98	10.22	28.07%
Feb	8.11	11.24	38.59%
Mar	8.2	12.28	49.76%
Apr	8.35	12.63	51.26%
May	8.27	12.3	48.73%
Jun	8.05	11.58	43.85%
Jul	7.82	10.86	38.87%
Aug	7.71	10.64	38.00%
Sep	7.8		
Oct	7.97		
Nov	8.33		
Dec	9.3		
Exchange Rate	4.46	Local currency/US \$	
Date of Quote	10/14/99	MM/DD/YYYY	

Note: Ukrainian hryvna (UAH) devalued from UAH 2.06/US\$1 on June 5, 1998 to UAH 4.46/US\$1 on October 1, 1999 (National Bank of Ukraine Exchange Rates).

Trade

According to official trade statistics, U.S. cheese exports to Ukraine have been much lower compared with EU exports basically because of high prices. The average CIF price of 1 kilogram of cheese imported from the US in 1998 was \$4.44, while it was only \$0.9 from Germany; \$2.14 from Estonia; \$2.45 from France. Legally imported cheese in CY 2000 is projected to remain stable. The share of illegal imports, mostly from neighboring countries, is quite significant. Ukrainian Customs Service trade data, provided through official statistics channels, indicate that hard cheese imports increased from 1.5 TMT in CY 1997 to 2.9 TMT in 1998. Industry experts, however, caution that cheese smuggling may have exceeded officially reported import numbers by two-three times. National currency devaluation decreased

cheese imports during the first half of this year compared with the same period in 1998.

Import Trade Matrix, Dairy, Cheese (MT; Partial Year January-June)

Exports for:	1997	1998	1998	1999
	Full	Full	Partial	Partial
U.S.	5	3	2	3
Others				
Germany	437	1039	591	2
Czech Republic	353	29	0	0
Estonia	184	264	159	130
France	147	95	45	34
Poland	142	190	84	154
Denmark	82	0	0	1
Netherlands	53	538	0	1
Belgium	29	0	0	0
Finland	20	658	190	1
Total for Others	1447	2813	1069	323
Others not Listed	48	45	14	4
Grand Total	1500	2861	1085	330

Export Trade Matrix, Dairy, Cheese (MT; Partial Year January-June)

Exports for:	1997	1998	1998	1999
	Full	Full	Partial	Partial
U.S.				
Others				
Russia	2574	2669	827	1025
Hungary	1084	842	179	366
Czech Republic	533	392	191	11
Belarus	33	0	0	0
Georgia, Republic of	32	0	0	1
Netherlands	25	0	0	0
Belgium	25	0	0	0
Total for Others	4306	3903	1197	1403
Others not Listed	97	55	19	1
Grand Total	4403	3958	1216	1404

Despite generally low quality and poor packaging, Ukrainian cheese exports in 1998 were higher than earlier reported. Exports of hard cheese increased during Jan.-June of this year in comparison with the same period in 1998; however, existing domestic demand for lower priced hard cheese will result in lower CY 1999 exports than in 1998. Cheese exports in CY 2000 are expected to decrease due to lower production.

Policy

The GOU abolished a minimum customs price on imported cheese with Resolution # 1387 of September 23, 1999. Before this resolution was adopted, importers had to pay the import duties and value-added tax (VAT) based on the minimum customs price of \$3.74 per one kilogram, regardless the fact that import prices are usually lower. The use of a minimum customs price artificially increased importers' expenses. It is expected that the use of actual contract prices for import duties and VAT calculations will reduce importers' total payments. According to the industry specialists, this resolution will help to legalize only a small fraction of illegal imports, but will not result a significant cheeses imports increase because the Ukrainian market is still protected with high import tariffs.

PS&D Dairy, Butter (1,000 MT)

	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	3	3	3	10	2	10
Production	110	113	105	105	0	90
Intra EC Imports	0	0	0	0	0	0
Other Imports	3	0	2	1	0	1
TOTAL Imports	3	0	2	1	0	1
TOTAL SUPPLY	116	116	110	116	2	101
Intra EC Exports	0	0	0	0	0	0
Other Exports	58	10	55	10	0	10
TOTAL Exports	58	10	55	10	0	10
Domestic Consumption	55	96	53	96	0	81
TOTAL Use	113	106	108	106	0	91
Ending Stocks	3	10	2	10	0	10
TOTAL DISTRIBUTION	116	116	110	116	0	101
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

Butter production in CY 2000 is projected to decline due to shrinking milk supplies and low export incentives. Large scale processing enterprises produced 34 TMT of butter during Jan.-Aug. 1999 compared with 36 TMT last year. The initial estimate of CY 1999 butter production remains unchanged. The production estimate for CY 1998 was revised based on official statistics data.

Consumption

The estimates of butter consumption and ending stocks in CY 1998 have been increased based on significantly lower 1998 exports. It is projected that butter consumption will decrease in CY 2000 compared with the most recent estimates for 1998 and 1999 because of expected lower production. Excess domestic butter supply has been partially offset by increasing demands from domestic ice cream and confectionary industries.

Trade

It is projected that butter imports during CY 2000 will remain low and will not exceed 1,000 metric tons. The Ukrainian dairy butter, spreads and fats market has been protected with a 50% import tariff with the stipulation that the import tariff can not be less than EUR 1.5 per one kilogram which is the highest tariff for any dairy products (except for ice cream). This is the primary reason for the decrease and low level of butter imports.

Prices Table, Dairy, Butter (Retail Trade)

Prices in	UAH	per uom	1 kilogram
Year	1998	1999	% Change
Jan	7.11	11.52	62.03%
Feb	7.08	11.44	61.58%
Mar	6.95	11.29	62.45%
Apr	6.84	11.19	63.60%
May	6.57	10.63	61.80%
Jun	6.18	8.98	45.31%
Jul	5.82	8.17	40.38%
Aug	5.86	9.28	58.36%
Sep	6.41		
Oct	6.82		
Nov	9.81		
Dec	10.67		
Exchange Rate	4.39	Local currency/US \$	
Date of Quote	08/27/99	MM/DD/YYYY	

Note: Ukrainian hryvna (UAH) devalued from UAH 2.06/US\$1 on June 5, 1998 to UAH 4.46/US\$1 on October 1, 1999 (National Bank of Ukraine Exchange Rates).

Import Trade Matrix, Dairy, Butter (MT; Partial Year January-June)

Imports for:	1997	1998	1998	1999
	Full	Full	Partial	Partial
U.S.	0	0	0	0
Others				
Estonia	1840	233	71	571
Netherlands	234	0	0	0
Czech Republic	213	0	0	0
France	150	1	0	0
Denmark	84	21	21	0
Russia	80	19	0	0
Germany	74	20	20	0
Lithuania	61	0	0	0
Latvia	0	42	2	0
Total for Others	2736	336	114	571
Others not Listed	78	1	0	10
Grand Total	2814	337	114	581

Export Trade Matrix, Dairy, Butter (MT; Partial Year January-June)

Exports for:	1997	1998	1998	1999
	Full	Full	Partial	Partial
U.S.	0	0	0	0
Others				
Russia	3649	8626	1439	1718
Belarus	426	23	23	0
Georgia, Republic of	369	265	127	56
Azerbaijan	148	1364	28	20
Moldova	128	14	0	0
Kazakhstan	0	196	0	0
Total for Others	4720	10488	1617	1794
Others not Listed	107	5	0	0
Grand Total	4827	10493	1617	1794

Ukraine will continue to export butter mostly to Russia and other Former Soviet Union (FSU) countries. Commercial exports of butter in 2000 are projected to remain at 1998 and 1999 levels. It is not clear how much butter will be supplied to Russia as payment for previously supplied natural gas and oil under intergovernmental agreements.

PS&D Table, Dairy, Milk, Nonfat Dry (1,000 MT)

	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	2	2	1	2	1	2
Production	27	32	26	32	0	30
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	29	34	27	34	1	32
Intra EC Exports	0	0	0	0	0	0
Other Exports	5	21	5	15	0	13
TOTAL Exports	5	21	5	15	0	13
Human Dom. Consumption	22	10	21	17	0	17
Other Use, Losses	1	1	0	0	0	0
Total Dom. Consumption	23	11	21	17	0	17
TOTAL Use	28	32	26	32	0	30
Ending Stocks	1	2	1	2	0	2
TOTAL DISTRIBUTION	29	34	27	34	0	32
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

Ukrainian nonfat dry milk production is expected to decrease to 30 TMT in CY 2000 from 1998 and 1999 levels. This is a reflection of increasing competition in export markets. Production of nonfat dry milk in 1998 increased due to higher export demand. According to official statistics, 16 TMT of nonfat dry milk were produced during the first six months of this year. The production estimate for the CY 1999 has been increased accordingly.

Consumption

The total domestic consumption of non fat dry milk in CY 2000 is projected to remain at the revised level for this year. Domestic consumption estimates for 1998 and 1999 have been reduced in order to reflect higher non fat dry milk exports.

Trade

Imports of nonfat dry milk are insignificant. CY 1999 and 2000 imports will decrease due to relatively low domestic prices and sufficient supply. Germany was the leading supplier of nonfat dry milk during first six months of this year.

**Import Trade Matrix, Nonfat Dry Milk (MT;
Partial Year January-June)**

Imports for:	1997	1998	1998	1999
	Full	Full	Partial	Partial
U.S.	1	1	0	0
Others				
Germany	12	35	10	30
Belgium	7	1	0	1
Switzerland	6	0	0	0
Poland	2	7	4	4
Hungary	1	0	0	2
Italy	0	7	7	0
Netherlands	0	0	0	2
Total for Others	28	50	21	39
Others not Listed	2	1	0	5
Grand Total	31	52	21	44

**Export Trade Matrix, Nonfat Dry Milk (MT;
Partial Year January-June)**

Exports for:	1997	1998	1998	1999
	Full	Full	Partial	Partial
U.S.	155	40	0	100
Others				
Lithuania	6283	3252	898	700
Japan	3930	5289	1255	1975
Germany	3162	3652	1140	140
Poland	3113	2070	520	160
Russia	1337	1333	734	2637
Philippines	1050	475	150	100
Great Britain	870	170	20	0
Netherlands	754	1440	220	420
Switzerland	434	0	0	0
Yemen	425	234	25	105
Thailand	389	0	0	0
Bulgaria	373	224	711	605
Total for Others	22120	20159	5673	6842
Others not Listed	1229	1247	248	1072
Grand Total	23504	21446	5921	8014

Ukraine will remain an exporter of nonfat dry milk in 2000 in order to meet foreign demand and to receive hard currency payments. Over the last few years, Ukraine has successfully expanded its nonfat dry milk export markets to include Western Europe and Japan. CY 2000 exports; however, are expected to be slightly lower than in 1998 due to growing competition in export markets.

Exports of non fat dry milk in 1998 are higher than earlier estimates. The estimate of current year exports has also been increased based on Jan-June shipments compared with the same period last year.

Policy

Ukraine does not have programs to support producer prices through the purchases of nonfat dry milk, and other dairy products or export subsidies. Insignificant quantities of non fat dry milk may be procured by the State Reserves, the Army and other institutions funded from the State budget.

PS&D Table, Dairy, Dry Whole Milk Powder (1,000 MT)

	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Beginning Stocks	1	1	1	1	1	1
Production	10	8	9	8	0	7
Intra EC Imports	0	0	0	0	0	0
Other Imports	1	0	1	0	0	0
TOTAL Imports	1	0	1	0	0	0
TOTAL SUPPLY	12	9	11	9	1	8
Intra EC Exports	0	0	0	0	0	0
Other Exports	1	2	1	1	0	0
TOTAL Exports	1	2	1	1	0	0
Human Dom. Consumption	8	5	8	6	0	6
Other Use, Losses	2	1	1	1	0	1
Total Dom. Consumption	10	6	9	7	0	7
TOTAL Use	11	8	10	8	0	7
Ending Stocks	1	1	1	1	0	1
TOTAL DISTRIBUTION	12	9	11	9	0	8
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

Whole dry milk (WDM) production is also expected to decrease in CY 2000. Production in CY 2000 will be constrained by the following factors: the limited ability of the domestic WDM consumers to purchase the product; worsening export prospects; and, a projected decrease in milk supplies to the processors. WDM output in 1998 is now estimated lower based on official data.

Consumption

Domestic WDM consumption in CY 2000 is projected to remain level. Ukraine infant food and baby dry milk mixes, which usually use WDM, are decreasing. According to official statistics, the output of baby milk products decreased from 7 TMT in 1996 to 3 TMT last year. Consumption of WDM in 1998 was lower than earlier reported due to a combination of decreased production and increased exports. WDM domestic utilization in 1999 is estimated higher based on reduced opportunities for exports.

Trade

Imports of WDM have been insignificant and will remain low in CY 2000. The United States was the major supplier in CY 1998. However, this is solely attributable to the Food for Progress Program allocations of full fat milk last year. Commercial shipments of WDM powder from the U.S. to Ukraine are problematic because of high import duties,

taxes and the proximity of EU suppliers. No commercial imports of WDM were recorded during Jan.-June of this year.

WDM exports from Ukraine will decrease in 2000 and are not expected to exceed 800 MT . Exports of WDM have decreased over the last two years because supplies to Russia, Ukraine's major buyer, have become more difficult due to increasing competition in the Russian market from Lithuania. The CIS market for WDM presents a good opportunity for Ukraine to revive its domestic production in the future with the removal of trade barriers within the CIS free trade zone.

**Import Matrix, Dairy, Dry Whole Milk Powder
(MT; Partial Year January-June)**

Imports for:	1997	1998		1999
	Full	Full	Partial	Partial
U.S.	0	81	0	11
Others				
Belgium	23	1	1	0
Finland	3	0	0	0
Poland	1	1	0	0
Germany	1	1	1	0
Netherlands	1	0	0	0
Estonia	0	10	5	0
Total for Others	29	13	7	0
Others not Listed	2	1	1	0
Grand Total	31	95	8	11

**Export Matrix, Dairy, Dry Whole Milk Powder
(MT; Partial Year January-June)**

Exports for:	1997	1998		1999
	Full	Full	Partial	Partial
U.S.	0	0	0	0
Others				
Russia	2078	1523	489	335
Georgia, Republic of	123	57	57	0
Poland	90	0	0	0
Macedonia	78	40	0	0
Germany	60	0	0	0
Belarus	57	0	0	0
Switzerland	20	0	0	0
Yugoslavia	20	0	0	0
Lithuania	20	280	20	0
Armenia	0	16	0	25
Total for Others	2546	1916	566	360
Others not Listed	57	65	8	38
Grand Total	2603	1981	574	398

Ice Cream

Production

Ice cream has always had a special place in the Ukrainian diet. Production volumes steadily increased since the 1950's and reached the peak in 1990 when 156 TMT of ice cream were produced. As a result of the economic crisis and the break down of business links, ice cream production dropped to 51 TMT tons in 1996. Ukrainian ice cream production has since recovered and the domestic creameries have started to squeeze importers from the Ukrainian market. Today, nearly 200 domestic factories compete for an ever-growing ice cream market. The biggest problems for the domestic industry remain outdated equipment and availability of quality packaging. Other problems include high import duties and complicated mandatory certification procedures for coconut, palm oil, emulsifiers and other components that are not produced in Ukraine.

Table: Ice Cream Production in Ukraine

Year	MT
1990	155,940
1995	53,268
1996	51,261
1997	56,913
1998	66,989

Consumption

Since the Soviet times, when a wafer cone was the most popular form of ice cream, consumers have developed a taste for ice cream sandwiches and cakes. Ice cream consumption has been increasing since 1996 primary due to low retail prices. One-hundred gram ice cream cones cost UAH 0.5-0.6 (\$0.08-0.11); such wafer cones account for approximately 50% of total ice cream sales. Cream sandwiches cost on average UAH 1 per one-hundred gram bar (\$0.23). Ice cream cakes are popular during October - April when seasonal demand for ice cream bars and cones declines. It is projected that demand for lower priced ice cream will increase in 2000.

Trade

Imports of ice cream in 1996 were 5,416 MT and came mostly from Poland, Bulgaria and the Czech Republic. Imported ice cream attracted customers with good quality and packaging when it first entered the Ukrainian market. The devaluation of the hryvna has made imported ice cream less attractive and customers have switched to lower priced domestic products. Imports of ice cream are projected to decrease in CY 2000 as domestic producers offer equal quality products at a lower price. The import duty on ice cream is 50 per cent of the customs value, but not less than EUR 3.5 per one kilogram.

Ukraine exported 264 MT of ice cream in CY 1996. Despite decreases in 1997 and 1998, ice cream exports during Jan.-June of this year increased to 121 MT compared with zero exports during the same period in 1998. It is

projected that Ukraine will continue to increase ice cream exports, mostly to the neighboring countries, and might become a net ice cream exporter in the future.

Import Matrix, Ice Cream and Edible Ice (MT; Partial Year January-June)

Imports for:	1997	1998	1998	1999
	Full	Full	Partial	Partial
U.S.	0	0	0	0
Others				
Bulgaria	1405	10	5	0
Poland	1381	15	14	0
Czech Republic	163	0	0	0
Russia	47	466	216	194
Switzerland	47	0	0	0
Lithuania	41	386	226	68
Germany	38	8	5	8
Estonia	32	13	13	0
Italy	27	0	0	0
Total for Others	3181	898	479	270
Others not Listed	57	40	35	16
Grand Total	3238	938	514	286

Yogurt

Production

Yogurt was introduced to the Ukrainian market approximately six years ago and at that time it was considered an exotic imported dessert. Domestic producers started yogurt production as recently as two years ago. Over this period, domestic producers have improved production practices and have studied consumer preferences. Yogurt production tripled over the last year and reached 6,182 MT in 1998. This increase continued in 1999 as more factories are purchasing modern processing and packaging lines. Domestic producers' share of total yogurt sales increased from 28 per cent in 1997 to 84 per cent last year, while imports were gradually squeezed from the Ukrainian market. Domestic producers hold primarily the market for 7-14 day shelf-life yogurt. The market for 28 day shelf life yogurt is still dominated by imports (*Onken* from Germany and French *Danoe*).

Consumption

Per capita yogurt consumption in Ukraine is estimated at 0.15 kilograms in 1998 -- still significantly lower than in the neighboring countries. The largest market for yogurt is Kiev, accounting for approximately 70 per cent of total sales. The remaining 30 per cent is primarily sold in six other major regional markets -- Odesa, Lviv, Dnipropetrovsk, Kharkiv, Donetsk and Luhansk.

Trade

Imports of yogurt have decreased due to the rapid growth of domestic production. Imported yogurt is still considered a “luxury”, but imports will not disappear completely because there are customers who prefer expensive high quality imported yogurt. Currently, yogurt imports consist of mostly long shelf-life (up to 100 days) product which comes from Germany and Poland. The leading German suppliers are *Mertinger* and *Ehrmann*,. The import duty for yogurt is 30 per cent of the customs value, but not less than EUR 0.5 per one liter.

According to trade statistics, yogurt imports from the U.S. were 18 tons in 1998. No yogurt of U.S. origin were recorded during the first half of this year. The customs value of U.S. yogurt in declared by the importers in 1998 was \$1.1 per kilogram, while it was only \$0.73 per kilogram for German yogurt and \$0.9 for Polish.

Import Trade Matrix, Yogurt (MT; Partial Year January-June)

Imports for:	1997	1998	1998	1999
	Full	Full	Partial	Partial
U.S.	0	18	0	
Others				
Germany	3374	851	314	232
Estonia	138	160	73	72
Belgium	120	0	0	0
Poland	60	85	43	225
France	18	38	30	0
Total for Others	3710	1134	460	529
Others not Listed	35	0	0	0
Grand Total	3745	1152	460	529

Import Tariffs Table, Dairy Products

HS #	Product description	Import duty rate	
		%	but not less than
0401000000	MILK AND CREAM, NOT CONCENTRATED, NOT SWEETENED	20	EUR 0.1/ 1 liter
0402000000	MILK AND CREAM, CONCENTRATED, WHETHER OR NOT SWEETENED	20	EUR 0.5/ 1 liter
0403000000	YOGURT, BUTTERMILK, CURDLED MILK AND CREAM, KEPHIR AND OTHER FERMENTED OR ACIDIFIED MILK AND CREAM	30	EUR 0.5/ 1 liter
0404000000	WHEY PROTEIN CONCENTRATES, WHEY, MODIFIED, FLUID, DRIED	30	EUR 0.5/ 1 liter
0405000000	BUTTER, DAIRY SPREADS, FATS AND OILS DERIVED FROM MILK	50	EUR 1.5/ 1 kilogram
0406000000	CHEESE (except 0406200000)	20	EUR 0.2/ 1 kilogram
0406200000	CHEESE OF ALL KINDS, GRATED OR POWDERED	30	EUR 0.8/ 1 kilogram
2105000010	ICE CREAM, WHETHER OR NOT CONTAINING COCOA	50	EUR 3.5/ 1 kilogram