



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 8/13/2004

GAIN Report Number: UP4015

Ukraine

Poultry and Products

Annual

2004

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Report Highlights:

Ukraine's production of poultry products in 2005 will increase considerably, but the local industry will not be able to meet domestic demand, which continues to increase. Demand for poultry imports will persist due to high red meat prices and falling production of livestock products. U.S. exporters of frozen poultry are poised to regain Ukrainian market share because human consumption continues to increase and industrial processors source U.S. product. U.S. imports are facing competition from the European Union and Brazil. Price is often the determining factor.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
Kiev [UP1]
[UP]

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Executive Summary

In 2005, Ukrainian producers of chilled and frozen poultry will continue to significantly expand production. It is expected that the industry will grow by 30%, given significantly lower poultry prices when compared to red meats in the domestic market. A sharp decrease in red meat production and skyrocketing prices resulted in Ukrainian consumers purchasing greater amounts of poultry products at the expense of red meats. This will lead to an increase in poultry imports of 237% in 2004, since the domestic poultry industry has not been able to keep up with the increased demand. Given the poor condition of the domestic livestock industry in Ukraine, the trend for increased poultry consumption is likely to persist in 2005.

Section I. Narrative

Production

The bad crop season of 2003-2004, compounded with the low profitability of livestock enterprises, resulted in a crisis for both the cattle and swine industries. The net effect was to drive production and consumption of poultry meat in Ukraine. Unlike the livestock industry, industrial poultry producers have implemented modern technologies and are the recipients of a significant level of investment. Economic efficiencies in many facilities are similar to poultry facilities in the European Union and the United States. In 2003 – 2004, Ukrainian and foreign investors (including the International Finance Corporation of the World Bank) funneled significant amounts of capital to Ukrainian producers. There are five major poultry producers in the country. The top two producers control over 60% of the domestic market. One of the major producers can produce chickens for \$ 0.56 to \$0.60 per kilogram. Retail prices for whole birds have increased and are hovering around \$1.50 per kilogram.

In many cases Ukrainian poultry producers do not sell mechanically de-boned meat (MDM) to local meat processors. It is more profitable for them to sell carcasses in so-called "soup sets" to consumers with lower incomes. A soup set usually includes a chicken carcass with legs and a detached filet. Sometimes necks, paws, harts and livers are also included.

Production of turkey, ducks, geese and other birds in Ukraine are not significant. Profit margins in chicken production are the highest, so producers prefer to not deal with birds with longer growing cycles and lower rates of returns. Given the significant excess demand for chickens and the relatively small domestic poultry industry, it is highly unlikely that production of other poultry meats will increase in the foreseeable future.

Marketing

Imported and domestically produced poultry are sold in two very distinct market segments. The products are positioned in different price niches and sold in different regions. Fresh chilled poultry produced in Ukrainian is sold in large cities (urban areas) where consumers are wealthier and can afford a higher priced product. Frozen U.S. poultry is primarily sold in smaller towns and cities where logistical or spatial distribution problems make sales of fresh poultry difficult. For the past three years, Ukrainian producers actively branded their chicken products and periodically launched massive nationwide promotional campaigns. These campaigns targeted their branded domestic competitors, but also actively campaigned to highlight the advantages of fresh poultry over frozen, thus reducing the attractiveness of imported product in the local market.

Ukrainian poultry producers actively build franchising networks in big cities (usually located within 150 kilometer radius from their facility). This practice will continue due to logistical

problems and a relatively short shelf life for chilled product (72 hours). Other retailers order only frozen meat. The two largest poultry producers' market share of chilled meat in gross sales is approximately 80%. Importers of U.S. poultry do not brand their meat, partially due to "low quality" product image created by local producers and partially because the majority of all sales are made to meat processing plants where branding is not crucial.

Due to excess demand in the market place for chicken, the market could be classified as a "sellers market" with poultry producers establishing the rules for retail outlets. Nevertheless, the growing influence of supermarket chains in big cities and urban areas are beginning to drive producers to form alliances with major retailers. Many producers already cut, label and pack chickens in accordance with requirements established by supermarkets. Despite major changes in the retail sector, almost 90% of all poultry meat in Ukraine is sold via open-air retail outlets and convenience stores.

Consumption

Consumption of poultry meat in 2005 will increase. Marketing efforts of poultry producers influenced many low and middle income Ukrainians to switch from traditional more expensive pork and beef products, to much more affordable poultry products. The 50% increase in price for red meats drove many consumers towards chicken. Producers of sausages, bologna, frankfurters and smoked meat products were the first to experience the drop in demand for their products. Many of them changed their recipes and meat assortments to include imported chicken and turkey. It is expected that the drop in domestic red meat production will ease somewhat in 2005 (see GAIN Report # UP 4014), but the demand for poultry imports will remain high. The nominal income for the vast majority of Ukrainians is expected to increase 20% by 2005. This creates extra demand by low-income consumers for poultry because they are unable to purchase the quantities of poultry products that they demand. Per capita consumption of poultry is growing and is likely to exceed 10 kilograms in 2004 with further growth expected in 2005.

Trade

Imports of poultry meat into Ukraine in 2005 are expected to increase due to growing demand, increase in consumer incomes and a decrease in red meat production. The market share that U.S. poultry occupies is inversely correlated to price. Recently, many food-processing operations in Ukraine switched to poultry sourced from the European Union or Brazil. The sole reason for the shift is the competitive price for chicken cuts, MDM and edible offal. These products were purchased in large quantities by Ukrainian processors. Currently, the share of U.S. product in the market does not exceed 25%, though it captured approximately 75% of the market in the late 90's. Pricing is the determining factor in the competitiveness of U.S. poultry products.

Illegal trade of U.S. poultry products into Ukraine continues to be a major concern for legitimate importers and Ukrainian authorities. According to FAS Kiev's estimates, in some months the amount of product illegally imported into Ukraine is equal to the amount of product that is imported legally. The factors driving illegal trade are high import duties and technical barriers to trade.

Policies

Successful resolution of the veterinary issues between Ukraine and the United States in 2003 cleared the way for U.S. producers to renew poultry shipments to Ukraine. The ban lasted for almost 2 years (February of 2002 – November of 2003). The first legal consignment of U.S. poultry arrived in early December of 2003.

For legal imports, Ukrainian import duties remain prohibitively high, so poultry imports are mostly limited to Ukraine's Free Economic Zones (FEZs), such as Donetsk Oblast, where certain imported meats and other products can arrive duty-free. Approximately 90% of all poultry imports are cleared in the free economic zones. However, Ukrainian law requires that poultry products imported into these zones must be designated for further processing. This is often not the case for U.S poultry, which typically is not slated for further processing. In reality, the overwhelming share of frozen poultry product entering the FEZs simply transits the zones, taking advantage of the duty-free status, with little or no additional processing. (For a detailed description of the import regime please refer to GAIN report # UP 3011.)

Unable to regulate the inflow of poultry into the FEZs, the Cabinet of ministers introduced product quotas in 2003 that limit shipments from the FEZs to the rest of Ukraine. These internal quotas are established on a quarterly basis and specify the quantity and HS codes of prepared meat products produced in the Zones that are eligible for sale within Ukraine. In some instances, these quotas serve as a trade barrier and limit imports of meat products by meat packers situated in FEZs.

The GOU is attempting to limit poultry meat (HS 0207) imports into the free-economic zones (FEZ) by introducing a 70,000 MT import quota. The quota is to be gradually reduced from 70,000 MT to zero over a ten-year period. The import quota is designed to encourage the utilization of higher-priced domestic poultry meat by processors who have established businesses in the FEZ and who are excluded from paying the standard EUR 0.7-1.5/kg import duty on poultry meat.

The Parliament of Ukraine approved the new legislation in the first reading on July 9, 2003. The second reading of the law was postponed many times, but there is a possibility the quota could be adopted by the end of 2004. The proposed law does not contain a transparent quota allocation mechanism. Currently, the 70,000 MT quota would not limit imports much, but with a forecasted increase of 220% for poultry products, the impact could be severe in 2005 and beyond.

The GOU is trying to boost chicken production in the country. Under pressure from the Ukrainian poultry producers, the Cabinet of Ministers expanded existing state support to cover broiler production in 2004. The donations will be 0.30 UAH (\$0.06 US) per 1 kilogram of live weight. The sum of support is unlikely to influence production much.

Section II. Statistical Tables

Broiler Meat PSD Table

Country	Ukraine					
Commodity	Poultry, Meat, Broiler		(1000 MT)(MIL HEAD)			
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01.2003		01.2004		01.2005
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	140	140	197	200	0	260
Whole, Imports	2	4	1	9	0	12
Parts, Imports	84	82	63	195	0	253
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	86	86	64	204	0	265
TOTAL SUPPLY	226	226	261	404	0	525
Whole, Exports	0	0	1	0	0	0
Parts, Exports	1	1	0	1	0	1
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	1	1	1	1	0	1
Human Consumption	225	225	260	403	0	524
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	225	225	260	403	0	524
TOTAL Use	226	226	261	404	0	525
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	226	226	261	404	0	525
Calendar Yr. Imp. from U.S.	10	4	0	40	0	0

Poultry Meat Imports into Ukraine

Country	Ukraine		
Commodity	Poultry, Meat, Broiler		
Time Period		Units:	MT
Imports for:	2002		2003
U.S.	19892	U.S.	4259
Others		Others	
Brazil	0	Brazil	31393
Belgium	17442	Belgium	11919
Germany	3912	Germany	10493
United Kingdom	20	United Kingdom	8142
Hungary	2494	Hungary	5406

Netherlands	11628	Netherlands	3713
Denmark	1085	Denmark	3607
Poland	3232	Poland	3191
Canada	912	Canada	2863
Total for Others	40725		80727
Others not Listed	1022		2810
Grand Total	61639		87796

Frozen Chicken Export Trade Matrix, MT

Country	Ukraine		
Commodity	Poultry, Meat, Broiler		
Time Period		Units:	MT
Exports for:	2002		2003
U.S.	0	U.S.	0
Others		Others	
Russia	82	Russia	612
Total for Others	82		612
Others not Listed	1		1
Grand Total	83		613

Imported Broiler Leg Quarter Wholesale Prices

Prices in	UAH	per uom	1 kilogram
Year	2003	2004	% Change
Jan	6,5	6,5	0%
Feb	6,6	6,5	-2%
Mar	5,9	6,5	10%
Apr	5,9	6,7	14%
May	6,2	7	13%
Jun	7	6,2	-11%
Jul	7,2	6,3	-13%
Aug	7,3	6,3	-14%
Sep	7,3		-100%
Oct	6,8		-100%
Nov	6,6		-100%
Dec	6,6		-100%
Exchange Rate	5,32	Local Currency/US \$	
Date of Quote		MM/DD/YYYY	