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Poultry and Products

Country Report

2006

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Report Highlights:

The rapid expansion of Ukraine's poultry industry is expected to continue in 2007. The impressive growth is being fueled by substantial large-scale investments and high domestic demand for poultry meat. The significant drop in poultry consumption that occurred following the AI outbreaks in late 2005 and early 2006 is now just a faint memory. U.S. poultry will continue to be demanded by Ukrainian meat processors, but imports of legal shipments will remain very limited. Prohibitive import duties effectively block potential imports, thus shipments will be limited to selected enterprises that continue to operate in the former Free Economic Zones. The market will continue to be subject to sporadic and unpredictable changes in government policies, but the anticipated accession of Ukraine to the WTO may significantly improve market access for U.S. poultry meat.

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

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

Executive Summary

The elimination of the Free Economic Zones (FEZs) in March 2005 through which most imports of poultry entered Ukraine and the prohibitively high import duties continue to restrict imports of U.S. poultry products into Ukraine. The import market situation is expected to remain constant until Ukraine accedes to the WTO. A small number of official shipments continue to be imported by companies that are situated in the former FEZ. These companies challenged the government's policy that abolished the FEZs in Ukraine's commercial court and managed to secure a favorable ruling that reestablished their FEZ privileges. Ukrainian poultry producers continue to benefit from high domestic poultry prices and limited imports. Large vertically integrated companies continue to expand rapidly and are opening new facilities, attracting investors and consolidating shares from small shareholders. State policies will continue to be aimed at limiting imports and supporting the domestic poultry industry. Importers continue to be a target and attempts to close them down will probably continue.

Section I. Narrative

Production

The ambitious expansion plans announced by some domestic producers two years ago are now materializing. In 2007, the industry is expected to grow at almost the same rate as in 2006. Poultry production was driven by continued income growth of consumers and relatively high prices for substitutable red meat products.

Production of poultry meat will continue to be concentrated in large vertically integrated holdings. These companies have established the entire production chain from parental flocks and hatcheries, to selling the chilled chicken to the end consumer through their own outlets or franchised networks. The largest poultry producers have made significant investments to expand production facilities throughout 2006 which include production of semi-finished products. Significant investments were also made in marketing and promotion campaigns for these new products, and some created advertisements designed to expose their trademarks to consumers through television and other public media.

Much of the projected 30% increase in production will be produced from the top 10 largest companies that are responsible for over 97% of Ukrainian poultry production. The largest Ukrainian poultry producer - Myronivsky Khleboproduct LLC. (Nasha Riaba brand) - is planning to invest an estimated \$110 million into facilities for semi-finished products by the end of 2006. Semi-finished products have yet to establish themselves in the Ukrainian market, which traditionally consumes raw poultry meat. Myronivsky Khleboproduct LLC announced that another large-scale poultry production facility would start production in the middle of 2007 with an expected capacity of 160,000 tones (ready-to-cook equivalent) of meat per year. Other important industry players from the "top 10" group (Ruby Rose Agricole Co, Ltd., Agromars Complex, Ptahocombinat Dniprovsky and Kurgansky Broiler) are also continuing to upgrade their facilities and to increase production. Most are expected to increase production by 3,000 – 10,000 tones each by the end of 2006.

The industry continues to focus their expansion efforts on poultry meat, but increased attention is being paid to geese, turkey and duck meat programs as more consumers are beginning to consume these products. Domestic poultry industry representatives also made numerous statements about their future expansion plans to supply Central Asia and

neighboring Russian and Belarusian markets. However, they acknowledge that demand in the Ukrainian domestic market exceeds supply and their primary goal is to be able to supply local needs.

Marketing

Ukraine's poultry market continues to be split into two distinctive segments: chilled poultry for retail and frozen products for further processing. The semi-finished poultry products segment began to emerge in early 2006. Through intensive marketing campaigns in 2003-2005, Ukrainian poultry producers have been able to convince consumers to buy chilled poultry products thus squeezing demand for imported frozen poultry generally used in the "further processing" niche (for more information on market segmentation see GAIN report UP 4015).

Domestic poultry producers market their products through franchising networks (the largest is comprised of over 1,000 outlets), supermarket chains, grocery stores and open-air markets. Quickly growing poultry consumption makes massive promotion campaigns unnecessary, but poultry producers continue to support their branded products through one-time marketing events. Only one big promotional campaign (for new to market semi-finished products) was conducted during 2006.

Elimination of the FEZs in March 2005 increased the real applied import duty rate resulting in a significant price surge in the "further processed" segment, which heavily relies on imported product. Official importers use very limited (if any) marketing tools to promote their products. Low prices of imported products remains the strong selling point. This creates additional risks for importers, since the "as cheap as possible" product segment is expected to shrink as population incomes increase and domestic production expands.

Consumption

The consumption of poultry is expected to continue to grow in 2007. This expansion is being fueled by the increase of retirees' and low-paid workers' disposable incomes. Consumers who traditionally had to limit their poultry consumption in the past can now afford to purchase these products. (Note: the average monthly disposable income in Ukraine remains quite low at UAH 495 (\$98) as of May 2006.) Ukrainians are gradually switching to poultry products from traditional pork and beef. This trend is expected to continue in 2007 due to increasing red meat prices, the inefficiency of Ukrainian beef and swine production and prohibitively high import duties for red meat.

The poultry market survived and overcame the significant decrease in consumption from January – March 2006 which was caused by multiple AI outbreaks in Southern Ukraine. The domestic industry attempted to use the AI outbreak to fight illegally imported poultry, which is sold in open-air markets with no veterinary or sanitary control. According to independent estimates, consumption decreased as much as 15%-20% and producers had to switch from chilled to frozen poultry production. Following the last AI outbreak, it took one month for consumption patterns to bounce back to normal. By early fall 2006 the public interest in AI decreased significantly. A single outbreak in Sumy oblast (central Ukraine) in June 2006 had no effect on poultry consumption. It is expected that possible future AI outbreaks will have little impact on poultry sales, unless one of the bigger vertically integrated poultry producers suffers from an outbreak or if human cases begin to be recorded.

Unfortunately, poultry products that are imported unofficially cannot be incorporated into the analysis due to lack of reliable data, but some anecdotal evidence suggests that smuggling decreased in 2006. The government took big steps to address border control, customs

corruption, veterinary and sanitary problems. Contrary to what was expected, the decreased supply of smuggled products did not lead to domestic poultry price increases. Poultry product prices were on the decline throughout the second half of 2005 and 2006 resulting in low-income consumers increasing consumption. Decreasing poultry prices suggest that consumption should stabilize in the next two to three years.

Trade

Due to the recent appointment of the new Cabinet of Ministers on August 4, 2006 and the extremely volatile political situation, it is very difficult to predict with certainty trade levels for the remaining months of 2006 as well as for 2007. The PSD table was changed to reflect official import numbers and broiler production for 2005. New government officials have already made some statements suggesting they support reestablishing the free economic zones. Nevertheless, the trade forecast is based on the current legislative situation.

Following the significant drop in imports of poultry in April 2005 due to the elimination of tax privileges associated with the FEZs, imports of poultry stabilized and remains constant at approximately 5-7,000 tones a month. Some companies situated in the former FEZs managed, through court challenges, to get their privileges reinstated. These companies argued that they followed the legal framework outlined by the previous government necessary to construct meat processing facilities in the FEZs and that legally they should still have the right to operate in the zone. Specifically, companies argued that the government gave them assurances to operate in the FEZs for a fixed amount of time. Statistics show that former FEZ-situated companies remain responsible for over 97% of poultry imports in 2006 and will likely continue to be major importers in 2007.

Import tariffs remain at prohibitively high rates and the slight tariff decrease in August 2005 had no impact on trade in 2006. The slight increase in imports of whole chickens relative to parts is likely attributed to market fluctuations rather than to import tariff decreases.

Government of Ukraine attempts to force domestic meat processors to rely on domestically produced poultry resulted in decreases in raw poultry meat supplies and an increase in prices for processed products. These factors resulted in a significant increase in imports of processed poultry products (HS 160232). Ukraine maintains prohibitively high import tariffs for these products for all countries except Commonwealth of Independent States (CIS) countries with which Ukraine has signed a free trade agreement. This led to growth of imports from Russia, Belarus and Moldova, which are importers of poultry products.

Despite the fact that imported poultry is procured for a different market segment (processors) than locally produced (retailers) product, growing domestic production will have a negative impact on poultry imports; although cheap imported poultry cuts will continue to be demanded from the Ukrainian meat processing industry. In 2007, domestic poultry producers are not expected to satisfy demand for poultry products used for further processing because of higher prices for Ukrainian poultry cuts. The United States is expected to remain the major supplier of imported poultry products unless more favorable prices in the European Union make importers switch to poultry from Germany or the United Kingdom.

Exports of processed poultry products (HS 160232) are not expected because of a meat ban imposed by Russia on Ukrainian products (imposed on January 20, 2006) and relatively high prices for Ukrainian product.

Policy

Ukraine's government policy for the poultry sector continues to focus on promotion of domestic production and reduction of imports (both official and unofficial). Ukraine's government officials continue to make public statements about the low quality and negative aspects of imported poultry products. The elimination of the Free Economic Zones where the majority of poultry imports entered Ukraine duty free made legal trade in poultry products almost impossible. The slight decrease in import duty rates (see GAIN UP5015 for duty rates) in August 2005 had no positive impact on trade. Poultry import tariffs will be decreased upon Ukraine's accession to the WTO, but recent political developments suggest that accession might take longer than previously expected.

During 2006, the Minister of Agriculture attempted to battle smuggling of meat through improved border control in the west and fighting corruption in state institutions. The campaign had mixed results, but many experts did notice a reduction in smuggling activity that was followed by an increase in costs associated with illegal activities. Conversely, many argued that the decrease in smuggling was a result of increased domestic production and the drop in poultry prices, makes "shadow" imports much less attractive.

The Ukrainian government continues to subsidize the domestic poultry industry through a system of direct payments per kilogram of chicken slaughtered, despite sizable extra profits gained by producers due to the prohibitive import tariffs and market closure. Ukrainian poultry producers and their association continue to gain political influence in both legislative and executive branches of government. In 2006, Ukrainian vertically integrated poultry producers/processors received 0.25 UAH/kg (\$0.05/kg) live weight (which is \$0.01 less than in 2005). These support programs are likely to be continued at the same rate in 2007.

Section II Statistical Tables

Broiler Meat PSD Table

Country	Ukraine					
Commodity	Poultry, Meat, Broiler			(1000 MT)(MIL HEAD)		
	2005	Revised	2006	Estimate	2007	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01.2005		01.2006		01.2007
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	280	289	370	375	0	490
Whole, Imports	10	4	20	3	0	3
Parts, Imports	105	133	25	73	0	55
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	11	0	10	0	10
TOTAL Imports	115	137	45	76	0	58
TOTAL SUPPLY	395	426	415	451	0	548
Whole, Exports	0	0	0	0	0	0
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	5	9	0	1	0	3
TOTAL Exports	0	0	0	0	0	0
Human Consumption	395	426	415	451	0	548
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	395	426	415	451	0	548
TOTAL Use	395	426	415	451	0	548
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	395	426	415	451	0	548
Calendar Yr. Imp. from U.S.	55	65	5	44	0	40

Not Official USDA Data

**Imports of Poultry Meat into Ukraine (RTC equivalent basis)
(Whole birds and poultry cuts HS 0207)**

Country	Ukraine		
Commodity	Poultry, Meat, Broiler		
Time Period		Units:	1000 MT
Imports for:	2004		2005
U.S.	125	U.S.	65
Others		Others	
Brazil	50	Germany	20
United Kingdom	37	United Kingdom	15
Germany	14	Poland	7
Belgium	15	Hungary	7
Hungary	12	Brazil	6
Netherlands	5	Belgium	4
Poland	2	Netherlands	2
Total for Others	135		61
Others not Listed	16		11
Grand Total	276		137

Source: Ukraine's State Statistics Committee

**Imports of Processed Poultry Products into Ukraine
(HS 16023)**

Country	Ukraine		
Commodity	Poultry, Meat, Broiler		
Time Period		Units:	1,000 MT
Exports for:	2004		2005
U.S.	0	U.S.	0
Russia	0	Russia	7
Belarus	0	Belarus	3
Poland	1	Poland	1
Moldova	0	Moldova	0
Others not Listed	0		0
Grand Total	1		11

Source: Ukraine's State Statistics Committee

Imported Broiler Leg Quarter Wholesale Price

Country	Ukraine		
Commodity	Poultry, Meat, Broiler		
Prices in	UAH	per uom	1 kilogram
Year	2005	2006	% Change
Jan	7,9	11	39%
Feb	8,8	9,8	11%
Mar	10	9,2	-8%
Apr	10,3	8,7	-16%
May	11	8,4	-24%
Jun	12,4	8,4	-32%
Jul	14,5	8,4	-42%
Aug	9,3		
Sep	9,4		
Oct	10,2		
Nov	10,4		
Dec	10,8		
Date of Quote	08/10/2006	MM/DD/YYYY	

Source: Ukrainian Importing Companies

(Exchange Rate: \$1 = UAH 5.05)