USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 10/11/2007

GAIN Report Number: UP7017

Ukraine

Livestock and Products

Voluntary Annual Report

2007

Approved by:
Garth Thorburn, Agricultural Attaché
U.S. Embassy, Kyiv, Ukraine

Prepared by:
Oleksandr Tarassevych, Agricultural Specialist

Report Highlights:
In 2008, Ukraine will continue to import pork and export domestically produced beef to Russia, although the volume of beef exports will be substantially lower than was recorded 5 years ago. Export volumes will remain highly dependant on the political situation in both Ukraine and Russia. Ukrainian production of pork will continue to grow, while beef production will continue to shrink due to the highly inefficient industry. Ukrainian consumers will continue to consume more poultry at the expense of beef and pork. Ukraine's expected accession to the World Trade Organization could significantly alter the market situation, although technical barriers to trade are expected to continue to limit red meat imports.

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

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

Section I. Narrative

Executive Summary

Backyard production of beef and pork dominates in Ukraine. In 2007, production of both pork and beef is expected to be significantly lower than forecasted. The lower forecast is a result of general inefficiencies in Ukrainain red meat production plus the 2007 summer draught and the increase in gas prices. All these factors resulted in a larger decrease in beef production and significantly slowed the growth of pork production. However, the trend for increased investments into the pork sector is expected to continue in 2008, unlike the beef industry. The growth of industrial pork production in Ukraine is higher than official numbers suggest. Backyard farms negatively contributed to the aggregated industry number. Imports of beef and pork remain extremely sensitive issues for the government of Ukraine. Meat imports continue to be restricted by prohibitively high import tariffs and imports entering through the Free Economic Zones (FEZs) are subject to technical barriers to trade. Only a few supplying countries have managed to negotiate import certificates with the Ukrainian State Veterinary Committee, of which the United States is one.

Production

Swine

Despite unfavorable weather conditions and growing input prices in 2007, production of pork grew in both industrial and backyard farms. The industrial sector is expected to continue to grow in 2008, driven by a substantial amount of investment. Backyard production in 2008 will be highly dependent on the market price for pork. The long-term trend for household production is expected to be negative despite recording some production increases over the years. Household farms cannot compete with modern industrial farms using imported (mostly from England and Denmark) nucleuses and benefiting from the economy of scale. In 2008, overall industry production is forecasted to remain steady or show a slight upward trend. During 2007, foreign and Ukrainian investors continued to pursue projects in Ukraine. Hog operations were not as profitable as poultry, but were clearly more profitable than beef production. First, Ukraine's domestic price for pork remains well above the price of beef. Second, since the growing cycle is much shorter for pork relative to beef, investors are more willing to invest in pork production facilities to take advantage of the much faster return on investment.

The 2007 summer drought in Ukraine led to a significant increase in barley prices which in turn drove up the cost of production. Concomitantly, the government of Ukraine implemented a grain export quota that gave Ukrainian swine breeders some competitive advantage over their western counterparts. As of October 2007, the price difference between 1 ton of Ukrainian barley and the world price reached $25-$30. Availability of cheaper electricity and gas (compared to US and Western Europe), and cheaper labor costs in rural Ukraine gave the Ukrainian industry an additional competitive advantage. The government's state support programs that are designed to increase domestic swine production have had a limited impact on the industry. Only few industrial companies can meet the government's requirements for receiving support. Government payments are often delayed toward the end of the financial year, so producers generally only receive partial coverage.

Cattle

Ukraine's beef industry continues to be in crisis with no sign of recovery. The number of animals is on the decline and the quality of those remaining animals are not good, especially if used to develop the industry. Few beef export shipments outlined in the PSD table is a result of animal slaughter, but rather a real production increase from the previous year. Beef production continues to be concentrated mostly in household farms. Beef production remains a derivative of the dairy industry and is highly dependent on milk prices. Beef animals constitute an insignificant portion of the Ukrainian livestock herd. The herd size is not expected to increase. The recent limitation imposed on Ukrainian cheese and dairy products by Russia has further deepened the crisis. Some relaxation of these trade restrictions occurred during 2007, but the amount was insignificant. Russian veterinary authorities removed most of the barriers on Ukrainian meat (carcasses and quarters) to Russia, but continue to impose the barriers on dairy products. In summary, any incentive to keep animals is somewhat diminished, and conversely the incentive to slaughter animals is somewhat increased.

Industrial production of beef remains very inefficient. Ukrainian dairy farms lack good genetics; they are poorly managed and use more inputs than necessary. Numerous investment projects in the Ukrainian dairy sector have lacked preparation and have been overly expensive. Businesses are not yet ready to invest in the Ukrainian beef industry and continue to target the poultry and swine sectors because of higher and faster rates of return. Lower beef prices in comparison to pork have also driven investments elsewhere.

Similar to the swine industry, there are government state support programs that are designed to increase production? However their effectiveness has also been quite limited. Farmers continue to complain about delayed payments and partial coverage of the amounts owed. Some farmers claim that they have not received any support at all.

Ukrainian households will continue to be the major producers of pork and beef in 2008. In mid-2007, households accounted for 64% (same as in 2006) of all cattle and 61% (1% drop from 2006) of all swine in Ukraine. Backyard production practices remain very primitive with very little attention paid to animal genetics, feeding rations and animal health issues. Contrary to the industrial sector, subsistence beef and pork production is expected to be stable and not subject to market fluctuations. Industrial production of beef will continue to decline while industrial production of pork will increase.

Cattle, cow and swine inventories for 2006 were changed in the PSD table to reflect official changes in the Ukrainian State Statistics Committee year-end statistics. Production (pig crop and calf crop) levels have been changed to match the new GOU revisions. As required, beef import figures (including the HS 1602 category) for the PSD were converted into CWE.

Consumption

Continued economic growth in Ukraine and an increase in consumers' disposable income are the major factors driving the increase in meat consumption. Also, significant changes are taking place in meat consumption. Nowadays, Ukrainians consume predominantly poultry and traditional pork. Consumption of beef has been on the decline for years. High quality beef is simply not available on the market. Ukrainian consumers may choose between expensive veal (male dairy calves slaughtered at 1-1.5 years of age) and cheap beef from cows after 5 years of lactation. Prices have also had a signifiant effect on consumption patterns. In 2007, Ukrainian consumers faced sharp price increases for all red meats and moderate price increases for poultry meat.

The continuing shift in consumers' preferences is directly correlated to high red meat prices (caused by plummenting domestic supplies). Technical barriers to trade and prohibatively high import duties have prevented Ukraine from purchasing signifiant amounts of products on the international markets. In the late 1990's, Ukrainian per capita consumption of pork was two and a half times greater than in the United States, with poultry as a rather insignificant share of the daily diet. It is clear that in 2008 Ukrainian producers will be unable to supply the same level of red meat as in 2006 or 2007, due to lengthy domestic industry production cycles (especially in the beef industry). Thus, the forecast for the remainder of 2008 is for reduced consumption of red meats and increased consumption for poultry meat.

Large-scale imports of high-quality beef and pork are unlikely in Ukraine in the near to medium term because of traditional consumption preferences. The majority of Ukrainians are not ready to pay a premium price for beef from beef cattle. Consumers also have a preference for fresh meat (animals slaughtered the day before sale) that they purchase in open-air markets and chilled beef that is sold in supermarkets. No frozen meat is available for sale in retail chains.

Trade

Ukraine remains a relatively closed market for US meat products. Despite signed bilateral beef and pork protocols, almost no trade has taken place. Import tariffs for red meat and products remain prohibitively high. Imports are only brought in by the few remaining enterprises based in the Free Economic Zones (FEZs). Following the elimination of tax privileges associated with the FEZs in 2005, imports of red meats stopped. Some companies situated in the former FEZs managed, through court decisions, to have their privileges reinstated. These companies argued that they followed the legal framework outlined by the previous government and that legally they should still have the right to operate in the zone(s). The companies that are still operating in the FEZs are responsible for over 90% of pork imports in 2006 and will likely remain large importers in 2008. Trade in beef and pork remains a sensitive political issue and the volume of imports is directly correlated to court decisions or political deals with businesses situated in FEZs.

The Russian ban on all Ukrainian products of animal origin imposed in January 2006 had a significant negative affect on the Ukrainian beef and pork markets. The ban included all dairy, red meat and poultry products exported to Russia or transshipped through the Ukrainian territory. At present the ban remains in place, although after a number of inspections were conducted by the Russian Veterinary Service, some Ukrainian enterprises were allowed to once again export their products to Russia. Now exports of Ukrainian beef have been restored and remain limited mainly due to production constrains. Exports of dairy products have not yet been restored.

Imported frozen pork (mostly meat trimmings) is used by meat processors to produce sausages, bolognas, canned meat and smoked meat products. Due to consumption preferences, imports of frozen products are not expected to dominate the retail market. The level of pork imports remained relatively stable over the past 3 years despite numerous attempts by the Ministry of Agrarian Policy of Ukraine to stop trade. Technical barriers to trade remain the most widely used tool to restrict imports.

In the past, the Ukrainian veterinary authority insisted that beef and pork be imported only in carcasses, halves and quarters in order to avoid mixed shipments of high and low quality products. Another important justification for importing carcasses and halves was to mimic Russia, which also imposed a similar import requirement. At present this requirement is not strictly enforced as re-exports of beef to Russia is not possible.

Ukraine's WTO accession will lead to a significant reduction in tariffs opening the Ukrainian market (outside of FEZs) to imported product. The GOU is eager to finish all the WTO negotiations by the end of 2007 to ensure accession in early 2008. Despite general political consent on WTO accession, a number of problems are being addressed in Ukraine's legislation. If the Ukrainian market is liberalized because of WTO accession, then all the import numbers will have to be reviewed.

Since October 2004, exports of all kinds of red meats remain subject to export licensing; although the significant reduction in Ukrainian meat exports made this trade-regulating tool redundant.

Section II. Statistical Tables

Ukraine Cattle PSD Table (1,000 Head*)

Commodity	Animal Numbers, Cattle				(1000 HEAD)(PERCENT)		
	2006	Revised		2007	Estimate		2008 Forecast
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007	01/2008
Total Cattle Beg. Stks	6704	6704	6514	6570	6570	6175	5710
Dairy Cows Beg. Stocks	3708	3708	3635	3670	3670	3347	3080
Beef Cows Beg. Stocks	58	58	58	58	58	57	56
Production (Calf Crop)	2980	2980	3454	2910	2910	3180	2930
Intra-EU Imports	0	0	0	0	0	0	0
Other Imports	1	1	1	1	1	0	1
Total Imports	1	1	1	1	1	0	1
Total Supply	9685	9685	9969	9481	9481	9355	8641
Intra EU Exports	0	0	0	0	0	0	0
Other Exports	1	1	2	1	1	1	1
Total Exports	1	1	2	1	1	1	1
Cow Slaughter	0	0	0	0	0	0	0
Calf Slaughter	0	0	0	0	0	0	0
Other Slaughter	3042	3042	3683	2908	2908	3541	2965
Total Slaughter	3042	3042	3683	2908	2908	3541	2965
Loss	72	72	109	72	72	103	95
Ending Inventories	6570	6570	6175	6500	6500	5710	5580
Total Distribution	9685	9685	9969	9481	9481	9355	8641
CY Imp. from U.S.	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0
Balance	0	0	0	0	0	0	0
Inventory Balance	-134	-134	-339	-70	-70	-465	-130
Inventory Change	-4	0	-4	-2	-2	-5	-8
Cow Change	-5	0	-5	-1	-1	-8	-8
Production Change	-4	0	-4	-2	-2	-8	-8
Production to Cows	79	79	94	78	78	93	93
Trade Balance	0	0	1	0	0	1	0
Slaughter to Inventory	45	45	57	44	44	57	52

**These are not USDA official numbers*

Ukraine Beef and Veal PSD Table, 1000 MT CWE (1,000 Head*)

Commodity	Meat, Beef and Veal				(1000 HEAD)(1000 MT CWE)(PERCENT)(HEAD)(KG)		
	2006	Revised		2007			2008 Estimate
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007	01/2008
Slaughter (Reference)	3042	3042	3683	2908	2908	3541	2965
Beginning Stocks	15	15	15	15	15	15	15
Production	514	514	464	490	490	446	373
Intra-EU Imports	0	0	0	0	0	0	0
Other Imports	50	50	26	65	65	11	15
Total Imports	50	50	26	65	65	11	15
Total Supply	579	579	505	570	570	472	403
Intra EU Exports	0	0	0	0	0	0	0
Other Exports	10	1	16	20	1	38	30
Total Exports	10	1	16	20	1	38	30
Human Dom. Consumption	554	563	474	535	554	419	358
Other Use, Losses	0	0	0	0	0	0	0
Total Dom. Consumption	554	563	474	535	554	419	358
Ending Stocks	15	15	15	15	15	15	15
Total Distribution	579	579	505	570	570	472	403
CY Imp. from U.S.	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0
Balance	0	0	0	0	0	0	0
Inventory Balance	0	0	0	0	0	0	0
Weights	169	169	126	169	169	126	126
Production Change	-9	0	-9	-5	-5	-4	-16
Import Change	19	0	19	30	30	-58	36
Export Change	-87	0	-87	100	0	138	-21
Trade Balance	-40	-49	-10	-45	-64	27	15
Consumption Change	5	0	5	-3	-2	-12	-15
Population	0	0	0	0	0	0	0
Per Capita Consumption	0	0	0	0	0	0	0

**These are not USDA official numbers*

Ukraine Pork Export Trade Matrix*

Time Period		Units:	1000 MT
Exports for:	2005		**2006**
U.S.	0	U.S.	0
Others		Others	
Russia	9		
Total for Others	9		0
Others not Listed	0		0
Grand Total	9		0

Data Source: State Statistics Committee of Ukraine
** Ukraine's Imports in Product Weight Equivalent*

Ukraine Pork Import Trade Matrix*

Time Period		Units:	1000 T
Imports for:	2005		**2006**
U.S.	0	U.S.	0
Others		Others	
Brazil	23	Brazil	49
Poland	5	Poland	2
Belarus	1	France	1
China	9		
Total for Others	38		52
Others not Listed	2		1
Grand Total	40		53

Data Source: State Statistics Committee of Ukraine
** Ukraine's Exports in Product Weight Equivalent (DLP defined conversion rates are applied to HS 020220, HS 16025 and HS 020210) No coefficient is applied to HS 020230. Imports of chilled pork were insignificant.*

Ukraine Swine PSD Table (1,000 Head*)

Commodity	Animal Numbers, Swine			(1000 HEAD)(PERCENT)			
	2006	Revised		2007	Estimate		2008 Forecast
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007	01/2008
Total Beginning Stocks	7052	7052	7052	7970	7970	8055	8650
Sow Beginning Stocks	580	580	560	690	690	640	700
Production (Pig Crop)	7250	7250	7543	8280	8280	7700	8400
Intra-EU Imports	0	0	0	0	0	0	0
Other Imports	35	35	39	30	30	30	40
Total Imports	35	35	39	30	30	30	40
Total Supply	14337	14337	14634	16280	16280	15785	17090
Intra EU Exports	0	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0	0
Sow Slaughter	0	0	0	0	0	0	0
Other Slaughter	5747	5747	5904	6225	6225	6435	6870
Total Slaughter	5747	5747	5904	6225	6225	6435	6870
Loss	620	620	675	725	725	700	720
Ending Inventories	7970	7970	8055	9330	9330	8650	9500
Total Distribution	14337	14337	14634	16280	16280	15785	17090
CY Imp. from U.S.	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0
Balance	0	0	0	0	0	0	0
Inventory Balance	918	918	1003	1360	1360	595	850
Inventory Change	9	0	9	13	13	14	7
Sow Change	14	0	14	19	19	14	9
Production Change	6	0	6	14	14	2	9
Production to Sows	12.5	12.5	13.5	12	12	12	12
Trade Balance	-35	-35	-39	-30	-30	-30	-40
Slaughter to Inventory	81	81	84	78	78	80	79

These are not USDA official numbers

Ukraine Pork PSD Table, 1,000 CWE (1,000 Head)*

Commodity	Meat, Swine				(1000 HEAD)(1000 MT CWE)(PERCENT)		
	2006	Revised		2007	Estimate		Forecast 2008
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	Post Estimate New
Market Year Begin		01/2006	01/2006		01/2007	01/2007	01/2008
Slaughter (Reference)	5747	5747	5904	6225	6225	6435	6870
Beginning Stocks	22	22	22	22	22	22	22
Production	485	485	436	530	530	470	517
Intra-EU Imports	0	0	0	0	0	0	0
Other Imports	45	45	53	45	45	60	65
Total Imports	45	45	53	45	45	60	65
Total Supply	552	552	511	597	597	552	604
Intra EU Exports	0	0	0	0	0	0	0
Other Exports	1	1	0	0	0	0	0
Total Exports	1	1	0	0	0	0	0
Human Dom. Consumption	529	529	489	575	575	530	582
Other Use, Losses	0	0	0	0	0	0	0
Total Dom. Consumption	529	529	489	575	575	530	582
Ending Stocks	22	22	22	22	22	22	22
Total Distribution	552	552	511	597	597	552	604
CY Imp. from U.S.	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0
Balance	0	0	0	0	0	0	0
Inventory Balance	0	0	0	0	0	0	0
Weights	84	84	74	85	85	73	75
Production Change	-2	0	-2	9	9	8	10
Import Change	-27	0	-27	0	0	13	8
Export Change	-91	0	-91	-100	-100	0	0
Trade Balance	-44	-44	-53	-45	-45	-60	-65
Consumption Change	-3	0	-3	9	9	8	10

**These are not USDA official numbers*

Ukraine, Pork Import Trade Matrix*

Commodity Meat, Swine
Time Period Units: 1000 MT

Imports for:	2004		2005
U.S.	4	U.S.	0
Others		Others	
Brazil	16	Brazil	23
Poland	12	Poland	5
Belarus	0	Belarus	1
China	2	China	9
Total for Others	30		38
Others not Listed	3		2
Grand Total	37		40

Data Source: State Statistics Committee of Ukraine
**Ukraine's Pork Imports in PWE (Conversion coefficients are applied to the HS020321 020322, 160249 and 160241 as required by DLP). No coefficient is applied to HS 020329. Import of pork in Ukraine under other HS Codes is not significant.*

Ukraine, Pork Export Trade Matrix

Country Ukraine
Commodity Meat, Swine
Time Period Units: 1000 MT

Exports for:	2004		2005
U.S.	0	U.S.	0
Others		Others	
Russia	9	Russia	8
Total for Others			
Others not Listed	2		0
Grand Total	11		8

Data Source: State Statistics Committee of Ukraine
**Ukraine's Pork Export in PWE (Conversion coefficients are applied to the HS020321 020322, 160249 and 160241 as required by DLP). No coefficient is applied to HS 020329. Import of pork in Ukraine under other HS Codes is not significant.*