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## Ukraine

### Poultry and Products

# After a Break Ukraine is Increasing Poultry Imports 2008

**Approved by:**

Ann E. Murphy, Agricultural Attaché  
Agricultural Affairs Office

**Prepared by:**

Alexander Tarassevych, Agricultural Specialist

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**Report Highlights:**

Ukraine increased imports of poultry products dramatically in the middle of 2008, following WTO accession. State purchases of poultry are expected to be short termed, while commercial sales of poultry will cover remaining market demand in the remaining months of 2008 and then dominate the market in 2009. The GOU trade policies will continue to be highly volatile and unpredictable, but poultry import numbers in 2009 will remain at a relatively high level. In the meantime domestic poultry production will continue to expand at 20-25% rate, slowly replacing imported product.-

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Includes PSD Changes: Yes  
Includes Trade Matrix: No  
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

Domestic production of poultry in Ukraine grew significantly in 2008 and will continue to grow in 2009. The growth is fueled by general income growth among low-income and middle-income consumers as well as by restricted imports in the end of 2007- early 2008. Domestic producers were able to finance this growth themselves or attract bank loans or foreign investments through the Initial Public Offers (IPOs).

Consumption of poultry continues to grow influenced by abruptly growing beef and pork prices. Unlike poultry, red meat markets continue to experience supply shortage due to technical import barriers and insufficient domestic production.

State policies in 2007-08 ranged from severe import restrictions to state purchases of poultry products. Ukraine's accession to the WTO liberalized the poultry market, so formation of the transparent and predictable market environment is expected to take place in 2009. Role of the State in poultry supplies is expected to diminish or disappear in 2009 with commercial companies taking over the market. Complete closure of the Free Economic Zones (FEZs) in late 2007 (see [UP8001](#) GAIN Report) had devastating impact on poultry import market in December of 2007, but Ukraine's accession to the WTO leveled the market in March of 2008. The FEZs are not expected to be a trade-affecting factor in the rest of 2008 or any time in the future.

Forecasts for imports prove difficult due to sporadic changes of Ukrainian import policies, but it is clear that imports in 2008 will be unusually high. Imports are expected to be just a bit below the record-high 2004 level. Taking into consideration commercial sales, state purchases and growing domestic production, there are chances for significant excess supply in the early fall, which will lead to some import drop toward the yearend.

## Section I. Narrative

### Production

Ukrainian domestic production of poultry continues to be highly concentrated with 2 vertically integrated companies dominating the market and controlling approximately 70% of production. In the recent year both companies invested significant resources into further integration. Sizable investments went for arable land acquisitions to produce company-owned fodder crops and for processing facilities for semi-cooked poultry products. Significant resources also continued to be spent on simple expansion through newer and bigger production facilities and slaughterhouses. Production in 2008-09 is expected to grow at the same rate of 20-25% a year, similar to the previous year. Production growth in 2008 came mostly from existing production facilities coming fully into operation at projected capacity.

Myronivsky Kheloboproduct (Nasha Riaba trade mark) remains the biggest and the most dynamic company on the market. In 2008 the company has finished internal restructuring increasing statutory fund by 23.4% concluding the IPO process on the London Stock Exchange (LSE). The successful sale of the company's 19.41% share (arranged by UBS and Morgan Stanley) yielded \$322 million. Thus the Mironovsky Hleboproduct S.A. (as named on LSE) was estimated at a relatively modest \$1.7 billion, which leaves significant space for future growth. The company will continue to develop existing production sites in the rest of 2008, but plans to launch another ambitious project in 2009. The new site project at \$1.3-

1.5 billion, will include a new production and slaughter facility for 420 thousand tons of poultry, combined feed facilities, sunflower and rapeseed crushing facilities as well as 9 elevators with a total capacity over 1 million tons of grain. The project will end in 2015.

Agromars – the second largest poultry producer in the country – is sized well below the Myronivsky Kheloboproduct and shows no signs of ambitious country-wide expansion. The company is slowly absorbing the Kurgansky Broiler after its friendly takeover in 2006 and trying to increase supplies from two major production hubs in its possession. Two remaining large poultry producers are trying to keep up with bigger competitors investing into expansion of their own production facilities (one production site per company).

Poultry producers continue to be the most powerful and efficient lobbying force in the Ukrainian agricultural sector. They managed to keep a favorable taxation regime unchanged and secured yet another poultry production subsidy increase in August of 2008. They also lobbied for the introduction of the grain export quotas to insure cheap feed supplies. These actions (especially delay of quota cancellation prior to 2008 bumper crop) significantly damaged the grain industry.

Backyard poultry production is still practiced and considered by the rural population to be an economic “safety net” and viewed by many rural dwellers as subsidiary and low-cost. At the same time growth of industrial production and availability of cheap imports in the second half of 2008 will exert only modest negative pressure on the non-industrial poultry sector. The number of chickens per household will continue a gradual reduction as in previous years.

### **Consumption**

The consumption of poultry in 2008 will continue to increase, in response to growing incomes of low-paid workers and pensioners as well as in response to widening gap between price for poultry and red meat. The growth will continue in both retail (predominately chilled poultry from domestic producers) and for further processing segments (both imported frozen product and domestically produced poultry). Consumption growth is fueled by two major factors: income growth and the increase in red meat prices.

Disposable incomes in Ukraine increased by 30.3% in 2007, allowing many low-income consumers to increase poultry consumption. Note: the disposable monthly salary in Ukraine remains quite low at UAH 1647 (\$354) as of May 2008. Significant technical barriers to trade had two effects on meat. First, they prevented red meat imports from reaching the market. Second, they also led chilled pork price to grow to \$10-\$12 /kilogram in open-air markets in early 2008. Despite significant trade restrictions over the period December 2007 – March 2008, poultry prices grew considerably less, remaining at \$4 -\$6 / kilogram in retail outlets.

Throughout 2007 - June of 2008 imported poultry remained in demand, but was available exclusively to processors. Existing veterinary barriers prevented imported frozen poultry from appearing at Ukrainian retail (see trade section of this report for more information). The state got involved and lifted restrictions in June, and imported product reached supermarkets all over the country. U.S. chicken leg quarters priced at UAH 13.5 (\$2.89) did not cause much excitement among affluent urban consumers, but were welcomed by small town dwellers. Some Ukrainian consumers remained loyal to Ukrainian producers despite comparable quality and lower price of imported products.

An avian Influenza (AI) outbreak was registered in Ukraine in mid-January of 2008 (see [UP8002](#) GAIN Report). This year's outbreak, like the previous one, caused no significant impact on poultry consumption in the country. It looks like Ukrainian consumers are

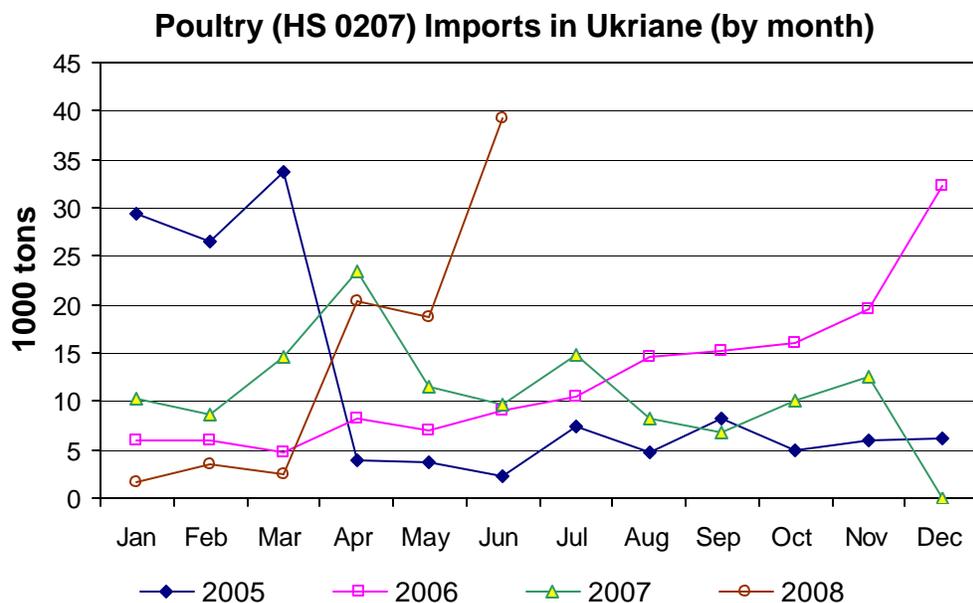
minimally interested in AI topic and only a serious outbreak may impact consumption of poultry products.

## Trade

Trade estimates for 2007 were revised to comply with official statistics. This year FAS Kyiv's forecast was close to the actual number despite a very volatile trade environment in the second half of 2007 and in 2008. In late 2007 the GOU was finally successful in the long-term fight aimed at elimination of import loopholes and crackdown on Free Economic Zones (FEZs) which served as duty-free outlets. Given prohibitively high import taxes, GOU actions resulted in a significant poultry import drop with zero imports in December of 2007 (never before observed in the recent trade history) and negligibly small in January-March of 2008. Consecutive supply drop put the Ukrainian meat-processing industry on the edge of survival and set retail meat prices at exceptionally high levels. Food price growth led to significant inflation growth (to a projected 17%-25% annual level) threatening overall economic stability in the country. Popularity of the GOU started to decline following criticism in mass-media and from opposition. These developments finally attracted attention of government officials and they decided to take some action in July of 2008.

In the same time, in early 2008, Ukraine concluded its WTO accession negotiations. As a result of 14 years of long negotiations, the Parliament ratified Ukraine's Accession Protocol on April 10<sup>th</sup> of 2008. However, the Ukrainian Parliament failed to adopt multilaterally agreed import duty rates. After a long discussion in Parliament and active lobbying against the lowering of import duties for agricultural products, the Parliament rejected the WTO-compliant Customs Tariff. It also was not able to approve alternative partially compliant drafts. In order to avoid negative international reaction, the GOU forced Ukraine's Custom Service to implement new custom duties as an internal document. The Order # 14/655-EP introducing WTO-agreed import duties was adopted by the Customs Service on May 16<sup>th</sup> of 2008. The document is currently in force and import duties are being charged accordingly. New import duties are listed in Section II below. At the same time the "old" Customs Tariff technically remains a valid official document, technically a legal collision yet unresolved by Parliament.

The most notable change in the new Custom Tariff was abolishment of the fixed rate import duties, which previously were transferred into extremely high *ad valorem* equivalents. This eliminated a situation, in which imported poultry products were subject to 70%-140% import duty while declared *ad valorem* rate was only 10% or 30%. Adoption of the new import duty rates finally opened a road for formation of a transparent import market not limited to preferential zones or preferential importers. In anticipation of market reopening, many importers had earlier signed import contracts. Thus import revival was observed in April, when Parliament ratified the WTO accession protocol (see monthly import graph below).



Source: State Statistics Committee of Ukraine

As mentioned before, the GOU was sharply criticized for high meat prices and high inflation. Despite the re-opened commercial poultry market the GOU decided to go further and initiate state imports of poultry using the State Reserve<sup>1</sup> as a GOU-appointed buyer. The need for this action is unclear, since commercial inflow of poultry (as shown on the graph) by the time, when decision was made, was quite significant. As of August 1<sup>st</sup> State Reserve procured over 60 000 tons of poultry to be delivered in August – December. The desire to bring poultry was so big that even some poultry in transit was procured with delivery in late July.

Trade levels achieved in June and July are unlikely to stay for the rest of the year for number of reasons:

- Ukrainian ports will not be able to transship more than 25-30 ths. tons of poultry a month, due to lack of modern cold storage facilities and in a presence of frozen commodities destined for other countries (mainly to Russia);
- Ukrainian market will not be able to accept such a significant additional poultry volume as declared by GOU;
- Ukrainian consumers got used to chilled poultry and a return to frozen is viewed by many as a step back to lower quality product. Lower price of imported products is considered to be a proof of lower quality. This approach is taken mostly by wealthy buyers.
- State Reserve of Ukraine is not a business entity and will not be able to secure deals with Ukrainian retailers to sell all product contracted. In-land logistics also is a weak point of the state supplier.
- Domestic producers responded by lowering price by 10-15% to increase consumers' loyalty.

<sup>1</sup> Official name: State Committee of Ukraine for State Reserve. The State Reserve is a state institution tasked to store a selected set of goods to satisfy country needs over special periods such as war or emergency situations. It is also tasked to stabilize markets through commodities interventions when supply-demand imbalances or critical shortages occur.

The trade forecast for the remaining months of 2008, as well as for 2009 remains subject to trade policy changes. At the same time, it is clear that shipments to Ukraine will significantly exceed previous years levels, no matter whether the State Reserve continues to operate as a market player or not. It is also clear that the poultry market will continue to operate guided by supply-demand forces and not limited by prohibitive tariffs. However the risk of TBT introduction is a growing threat.

Another interesting observation on poultry trade in Ukraine is on the export side. Ukrainian poultry producers are looking toward future markets for their product which appear to be in Central Asia. Insignificant imports of Ukrainian poultry products by Kazakhstan in 2008 yielded no profits to exporters and had no economic impact given high domestic prices. But it represented an attempt to establish market connections abroad and a desire to concentrate on them in the future. Over time U.S. poultry exporters may find an unexpected competitor for the Former Soviet Union (FSU) Asian markets. It is also clear that Ukraine is exploring the possibility of expanding to Russia, to establish markets there, but political factors may intervene and inhibit this market.

## Section II Statistical Tables

Broiler Meat PSD Table\*

Poultry, Meat, Broiler Ukraine	2007			2008			2009
	Market Year Begin: Jan 2007			Market Year Begin: Jan 2008			Market Year Begin: Jan 2009
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Post Data
Production	460	460	475	540	540	570	690
Whole, Imports	0	2	1	0	2	4	5
Parts, Imports	140	120	129	110	120	211	155
Intra-EU Imports	0	0		0	0		
Other Imports	0	10	10	0	10	8	8
Total Imports	140	122	140	110	122	223	168
Total Supply	600	582	615	650	662	793	858
Whole, Exports	6	0	3	6	0	5	8
Parts, Exports	0	0	2	0	0	2	2
Intra EU Exports	0	0		0	0		
Other Exports	0	3	1	0	5	1	1
Total Exports	6	0	6	6	0	8	11
Human Consumption	594	582	609	644	662	785	847
Other Use, Losses	0	0		0	0		
Total Dom. Consumption	594	582	609	644	662	785	847
Total Use	600	582	615	650	662	793	858
Ending Stocks	0	0		0	0		
Total Distribution	600	582	615	650	662	793	858
CY Imp. from U.S.	89	90	89	70	80	150	110
CY Exp. to U.S.	0	0		0	0		

\*Not Official USDA Data

**Imports of Poultry Meat into Ukraine (RTC equivalent basis)  
(Whole Chicken and Cuts HS 0207 and HS 16023)**

Country	Ukraine		
Commodity	Poultry, Meat, Broiler		
Time Period		Units:	1000 MT
Imports for:	2006		2007
U.S.	72	U.S.	89
Others		Others	
Germany	48	Germany	18
Belgium	8	Brazil	11
Hungary	7	Hungary	8
Russia	7	Belgium	5
Brazil	6	Netherlands	4
United Kingdom	4	Russia	2
Italy	2	United Kingdom	1
Netherlands	2		
Total for Others	84		49
Others not Listed	2		2
Grand Total	158		140

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	2007	2008	% Change
Jan	8.15	10.50	-26%
Feb	8.05	10.70	-18%
Mar	8.50	10.70	-8%
Apr	8.50	11.00	-2%
May	8.60	12.20	2%
Jun	8.70	11.40	4%
Jul	9.05	11.50	8%
Aug	8.55	11.00	13%
Sep	9.70		
Oct	9.50		
Nov	9.40		
Dec	10.50		
Date of Quote	09/16/2008	MM/DD/YYYY	

Source: Ukrainian Importing Companies

(Exchange Rate: Jan 2007- May 2008 \$1= UAH 5.05; May 2008 – Current \$1= UAH 4.85)

\*The most popular poultry cut imported in last 5 years

**Ukraine Custom Tariff for Poultry Products (HS 0207)**  
**(as implemented by the State Customs Service Order #14/655-EP dated by May 16<sup>th</sup>, 2008 and Envisaged by the Law Draft 2351)**

HS Code	Description	Old Tariffs		Old Tariffs
		<i>Ad valorem</i> Import Duty Rate	<i>Ad valorem</i> Import Duty Rate	
0207	Meat of chickens, ducks, geese, turkeys and guineas, fresh, chilled or frozen			n/a
0207 11	Chicken, whole, fresh or chilled	10%	0.4	15%
0207 12	Chicken, whole, frozen	10%	0.4	12%
0207 13	Chicken, cuts & offal, fresh/chilled	30%	1,5	12%
0207 13 20	Chicken Halves and Quarters, not deboned, Fresh or Chilled	-	0.7	12%
0207 13 60	Chicken legs and leg parts, not deboned, Fresh or Chilled	-	0.7	12%
0207 14	Chicken, cuts & offal, frozen	30%	1,5	10%
0207 14 60	Chicken Cuts, Legs and Leg Cuts, Frozen	-	0.7	10%
0207 24	Turkey, whole. fresh or chilled	10%	0.4	15%
0207 25	Turkey, whole, frozen	10%	0.4	5%
0207 26	Turkey, cuts & offal, fresh or chilled	30%	1.5	15%
0207 27	Turkey, cuts & offal, frozen	30%	1.5	5%
0207 32	Ducks/geese/guinea fowl, whole, fresh or chilled	10%	0.4	15%
0207 33	Ducks/geese/guinea fowl, whole, frozen	10%	0.4	12%
0207 34	Ducks/geese/guinea fowl, fatty livers, fresh/chilled	30%	1.5	12%
0207 35	Ducks/geese/guinea fowl, cuts/offal nesoi, fresh/chilled	30%	1.5	15%
0207 36	Ducks/geese/guinea fowl, cuts/offal, frozen	30%	1.5	15%

\* Import duties were empowered on May 16<sup>th</sup>, 2008; preferential import duties now are equal to regular ones.

**Ukraine Custom Tariff for Processed Poultry Products (HS 1602 32)**  
**(as implemented by the State Customs Service Order #14/655-EP dated by May 16<sup>th</sup>, 2008 and Envisaged by the Law Draft 2351)**

HS Code	Description	Old Tariffs		New Import Tariffs *
		<i>Ad valorem</i> Import Duty Rate	Fixed minimum rate, EUR per 1 kg.	
1602 32	Homogenized preparations of poultry (Gallus domesticus) meat and meat offal, prepared/preserved			
1602 32 11	contain 57% of weight or more of meat or offal; raw	30%	0.8	15%

1602 32 19	contain 57% of weight or more of meat or offal; other	30%	0.8	15%
1602 32 30	contain between 25% of weight and 57% of weight of meat or offal	30%	0.8	15%
1602 32 90	others	30%	0.8	15%

\* Import duties were empowered on May 16<sup>th</sup>, 2008; Preferential import duties now are equal to regular ones.