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Ukraine

Livestock and Products

Crisis Meat Consumption and Import Trends

2009

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Report Highlights:

Developments of the world economic and financial crisis resulted in a severe decrease in consumer income in Ukraine. Local currency devaluation as well as introduction of an increase of 13% import duty for all meats and meat products calls for a review of production and import numbers in previously submitted PSDs.

Includes PSD Changes: No
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>

Report Highlights

The world economic crisis quickly developed and became a national crisis in Ukraine. A collapse in employment and currency devaluation resulted in a significant purchasing power decrease. Elimination of the major factor driving consumption (and imports) resulted in a decrease of red meat and poultry imports for the first time in the last 8 years. With insufficient domestic production of both poultry and red meats the market remains highly dependent on imports. A significant price drop observed in the world market in the same time period was not able to offset the negative consumption trends in the country. Negative macroeconomic developments are not over, thus exact consumption trends are difficult to predict with accuracy. The report updates PSD tables to reflect new economic developments.

This report covers all kinds of meat: poultry, beef and pork due to significant potential for substitution in consumption of all animal proteins. Analysis of meat markets in crisis is a difficult task due to an abundance of macroeconomic factors that are not usually encountered in GAIN market reports. For the purpose of this Report it is assumed that the currency will remain relatively stable at the current rate (official exchange rate is stable for 2 months) and that no additional protectionists measures will be introduced by the GOU.

Production Trends

Production numbers for all proteins need to be reviewed as well. On the one side significant currency devaluation gives local producers a certain advantage over their foreign competitors, but if fact economic crisis brought more challenges than benefits to local meat producers. Development of profitable production facilities heavily relied on external financial sources which happened to be either unavailable or too expensive. Many companies were unable to maintain day-to-day operations due to delayed money transfers in troubled banking system.

Ambitious expansion plans of poultry producers relied on bank loans which are no longer available since November of 2008 due to significant deposit withdrawals by the general public and multiple bank defaults. Many banks increased previously negotiated loan rates demanding significantly higher interest. Due to previous availability of relatively cheap loans in US dollars and in euros, many poultry and beef producers found themselves at a huge disadvantage after currency meltdown. Now they are paying much higher interest rates in foreign currency while revenue is fixed in fallen Ukrainian Hryvnas (UAH). For many producers the currency risk price is too high.

Some producers that concluded their Initial Public Offers (IPOs) found themselves unable to pay the coupons on depository notes sold in London or Warsaw Stock Exchanges. Their access to further financing on those markets will remain limited in the foreseeable future.

Similarly, producers of Ukrainian meat met the same plummeted demand for their products. Contrary to expectations, the population significantly decrease its consumption of food products. In late 2008 many analysts believed that food product markets would be the last to suffer after the housing, automobile and durable industrial goods markets. Due to a demand drop many of the processing enterprises had to cut their production to 2-3 working days a week.

Many inputs used by producers of beef, pork and especially poultry are of foreign origin, so many companies will find their hryvna-denominated inputs growing despite the currency

drop. The Ukrainian industry can supply only a limited number of basic equipment items (like cages) so a quick switch to locally produced machinery is unlikely. On the other side the majority of input costs (feeds and related items) will remain priced in Hryvnas.

Based on the facts above it is safe to say that expansion plans of the poultry industry will be reduced, but existing facilities will remain competitive and continue to produce poultry products. This is reflected in the production line of the renewed poultry PSD table. Situation in the beef industry is quite different due to heavy reliance on household production. Use of imported materials is minimal, but falling milk prices and the closure of many dairy processors would eventually lead to increased animal slaughter and a short-term beef production increase. The situation is already reflected in the previous version of PSD table, thus the Post keeps previously submitted numbers and proposes to leave these lines unchanged.

Consumption Trends and Imports

US Dollar denominated average per capita disposable income dropped by 55% from September 2008 (local maximum of \$395) to \$216 in January of 2009. The number for February will probably be even lower, although the contribution of the official exchange rate in this formula is going to be minimal as it remains unchanged at 7.70 UAH/\$. At the same time the real market exchange rate fluctuates between 8.1-9.1 UAH/\$. Accounting for the commercial, or real market exchange rate would make this graph even less encouraging.



* Excludes entrepreneurs, shadow economy, self-employed individuals and underestimates decrease due to the official exchange rate used.

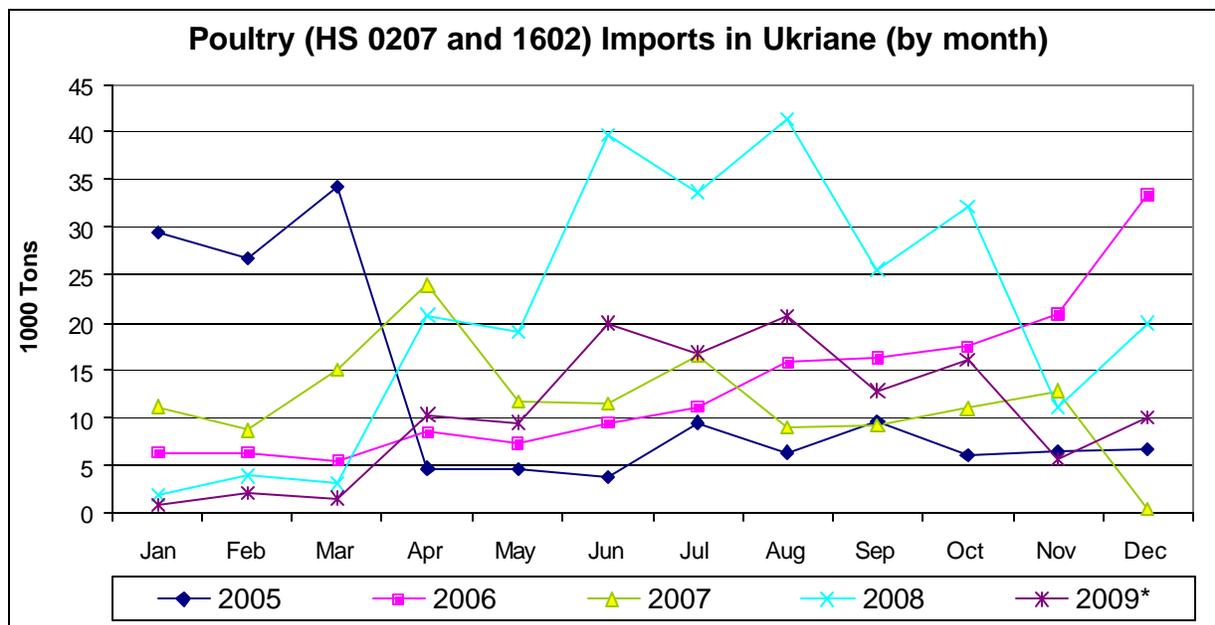
Source: State Statistics Committee of Ukraine

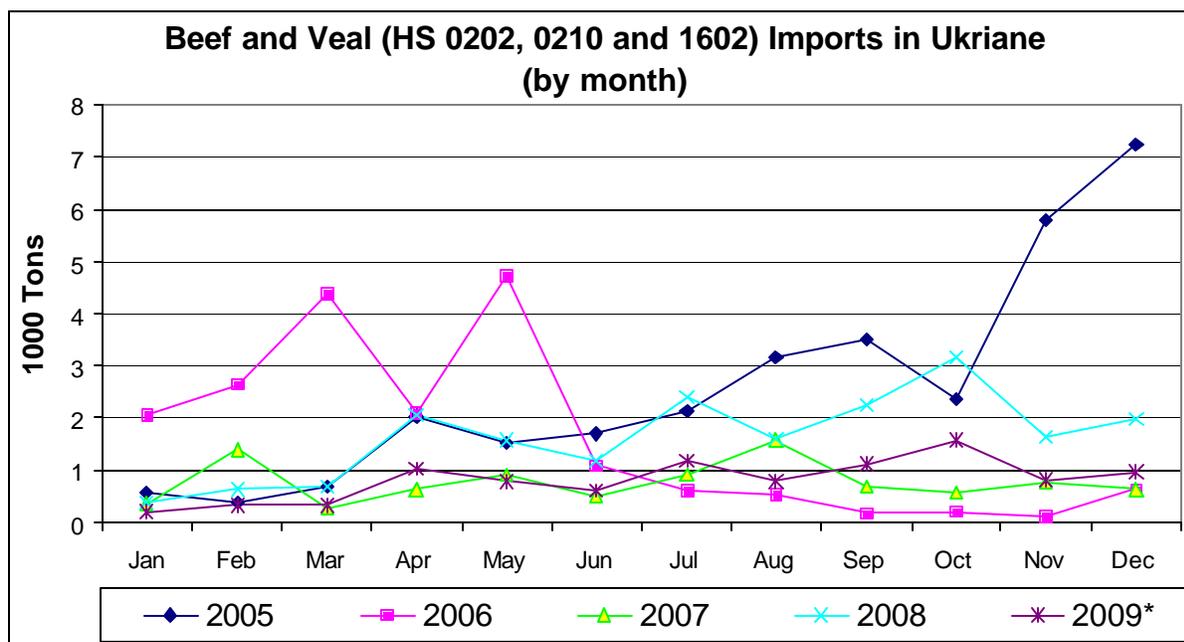
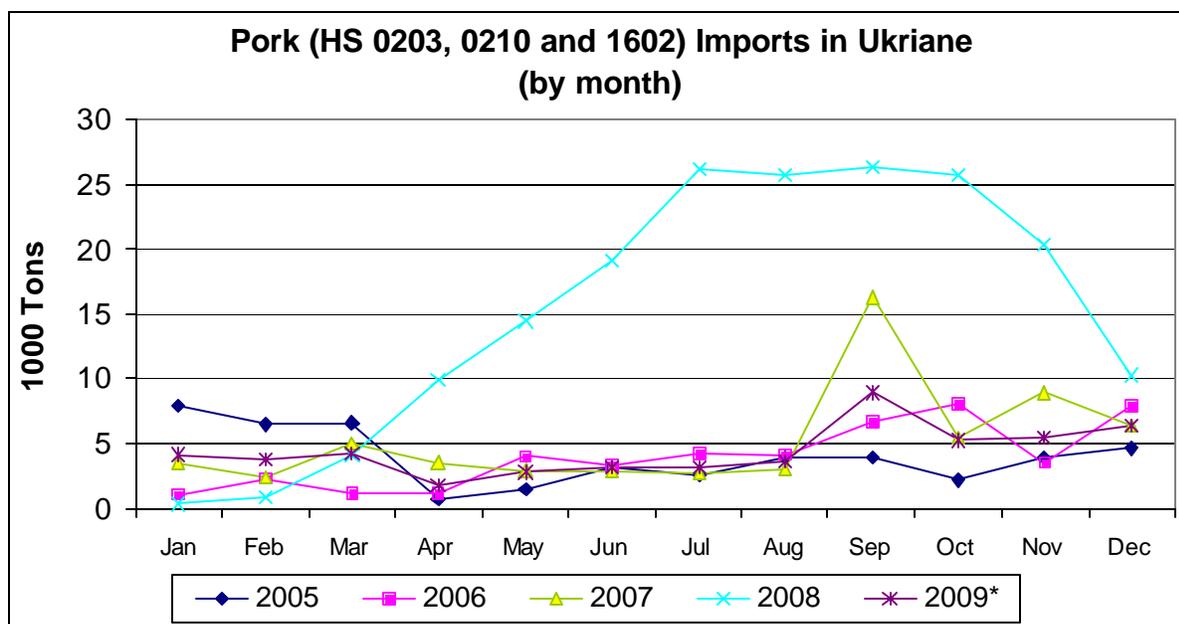
Some important conclusions can be drawn from this graph. First, the Ukrainian consumers will likely significantly cut back on meat consumption in 2009. Due to a general inelasticity of food consumption (compared to durable industrial goods consumption) this drop is likely to be less than 55%. The consumption pattern in 2009 is going to be similar to the consumption pattern of 2006 or earlier. Use of some income change forecasts and factoring in the commercial exchange rate suggests 2005 or even 2004 as a consumption level.

A short market review is provided for the time period from the late summer – early winter of 2008. This is needed before import graphs for separate proteins are analyzed. These developments were not outlined in previously submitted GAIN Reports.

A significant world market price drop for all kinds of meat in August – September of 2008 led to a situation when a large number of containers congested Ukrainian Black Sea ports. Many buyers, including those considered reliable ones, refused to honor contracts for meat. This situation followed from the pre-crisis trade practice when importers were granted very small down payments on their contracts. In many cases exporters carried their trade partners through for as little as 20% on the first payment with a remaining 80% due upon vessel arrival at the port of destination. This way any market downward movement in excess of 20% would result in an incentive for the importer to refuse the contracted shipment, and to start the search for a better deal elsewhere.

Facing significant problems with Ukrainian traders and buyers, many foreign suppliers cut their future deliveries scheduled for late 2008. This explains a gradual trade decrease well before the Ukrainian currency meltdown started after October 11th of 2008. Further Hryvna devaluation throughout November 2008-January 2009 made trade in meat products even less appealing to the trade due to the significant currency risks which traders were not able to hedge and lack of the favorable trade terms they were accustomed to before the crisis.





* Forecast;

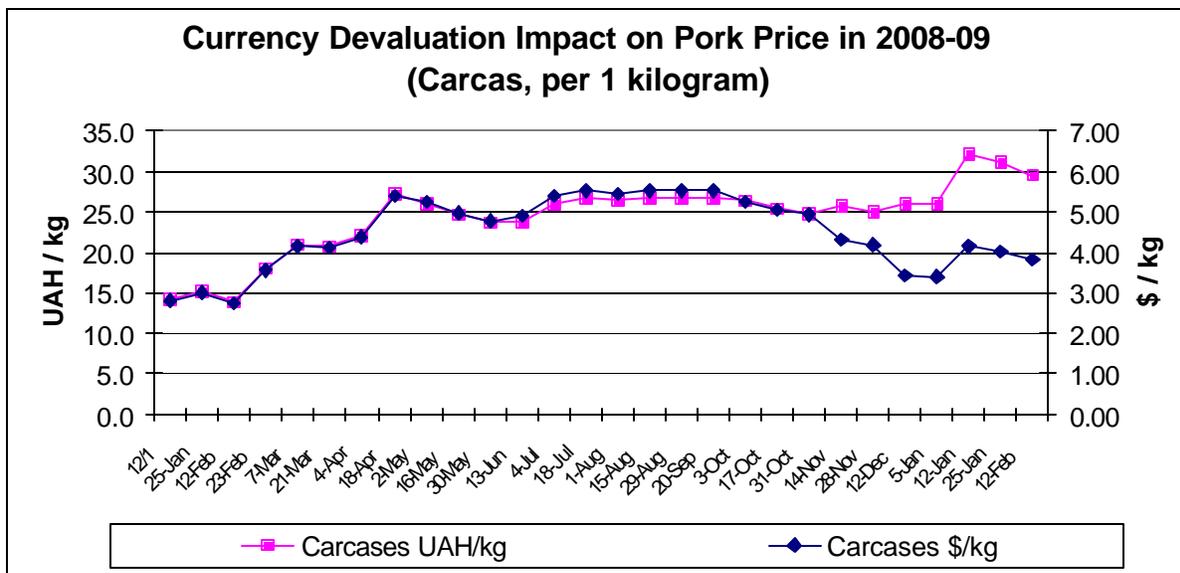
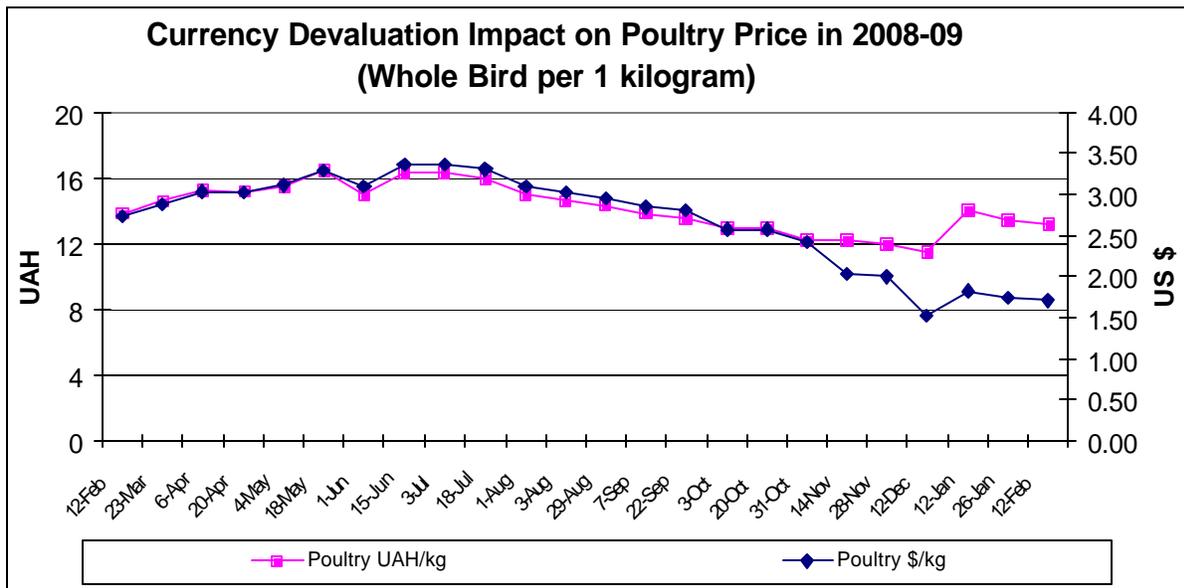
Source: State Statistics Committee of Ukraine; product definitions are in line with the reporting instructions.

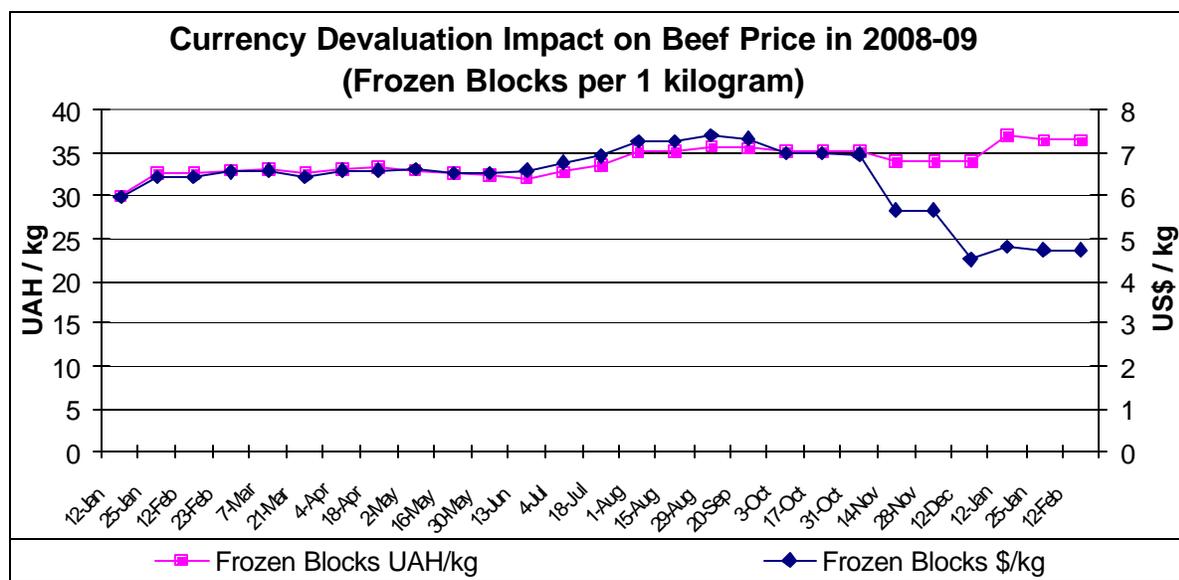
Both poultry and pork achieved local historical maximums in 2008 with pork exhibiting especially unusual behavior. During the summer months imports of pork were comparable with imports of poultry. This shows that there is significant market potential should purchasing power return to consumers. At the same time it is not expected that the market will recover to the former level any time soon.

Real imports in the last month of 2008 and in January-February of 2009 were insignificant. Most deals were made on product stuck in ports. Significant quantities of pork have been re-exported without custom clearance, but most poultry ended up on the Ukrainian market.

The behavior of beef differs from poultry and pork. Despite a rapidly falling number of animals in the country, increased slaughter is still providing sufficient amounts of beef for domestic consumption. Consumer preferences also remain the same with poultry and pork being the proteins of choice. Ukrainian beef (derived from dairy and dual purpose animals) remains of low quality. Imports are allowed only for further processing.

The following 3 graphs demonstrate currency devaluation influence on importers of poultry, pork and beef. Ukraine is a small country and “price taker” in the international market. Comparison of domestic price in Ukrainian Hryvna and US Dollar show sharp price decrease in dollar denominated poultry. Two graphs that closely followed each other for years moved in the opposite direction in November of 2008. The difference between the two prices reflected on the right scale shows dollar denominated price or “disincentive” that importer is charged if he wants to sell poultry in Ukraine (all import duties and VAT paid).





Source: Ukrainian Agribusiness Club Consulting Company

It is clear from these three graphs that a continuing Hryvna devaluation prevents the convergence of the graphed lines and illustrates that reduced purchasing power makes importers lower prices. The disincentive for 1 kilogram of poultry is the smallest around \$1, the premium paid for pork is slightly over \$2, the premium for beef is over \$2.5. Graphs show that the markets have not yet reacted to the situation and caught up with the world price. Lowering consumers' incomes will significantly extend this process over time putting additional pressure on importers.

State Policies

A significant developments since the last report was the introduction of a 13% increase in import duties for a number of commodities including HS 0202, 0203, 0206-0210 and HS 1602. The vast majority of imported meat products will face this increased duty. For more information about the Law, please refer to GAIN Report UP9002. Increased import duty will be another factor contributing to a decrease in imported meat. There is a chance that the duty will encourage smuggling through western borders. Smuggling was significantly reduced after Ukraine's WTO accession, when tariffs went down.

Many poultry and pork importers complain about unjustifiably high customs evaluations at the hands of the Ukrainian State Customs Service. Significant reductions in world prices for meat in the late 2008 led to large number of deals concluded at reduced prices. A lot of poultry and pork became stuck in ports and changed ownership 2 times or more. Ukrainian custom attempts to establish pre-crisis prices led to increases of real duty paid at almost 2 times the value of the established WTO negotiated bound rate. This created another trade obstacle for importers.

Another factor influencing trade was a Value Added Tax (VAT) subsidy regime change. Small households, which do not pay VAT, now unable to receive additional procurement price mark-ups for meat and milk sold to processors. This has led to a milk procurement price decrease and increased animal slaughter.

Conclusions

Based on the factors described the PSD tables have been changed as follows. Expected import volumes for animal proteins were decreased, as well as expected consumption. Poultry will suffer the smallest decrease, while a decrease in pork imports will be very significant. Sizable imports of poultry over the summer months are not expected to repeat in 2009. After an abrupt drop in trade over the winter months it is expected to rebound to 2005-06 levels for the remaining part of 2009. Due to increased import duty, trade will continue to concentrate in low-cost segments (MDM for further processing and chicken leg quarters). Expected growth in domestic poultry production was reduced.

Beef will remain a relatively low-traded item with insignificant, but growing demand in the country. The only reason for an expected trade decrease is a winter months trade drop. The production number for beef was left unchanged due to a lack of data about households' reaction in crisis developments.

Pork trade in early 2009 will continue its downward trend established since the fall of 2008. After that it is expected to stabilize at 2005-06 levels. Domestic industry at this point could propose very little alternative to imports. The "big import year" for this commodity is over, but demand will come back with a rebound in incomes.

Attachments

Broiler Meat PSD Table*

Poultry, Meat, Broiler Ukraine	2008			2009		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post
			Data			Data
Inventory (Reference)	0	0		0	0	
Slaughter (Reference)	0	0		0	0	
Beginning Stocks	0	0	0	0	0	0
Production	570	570	570	690	690	620
Whole, Imports	0	4	4	0	5	5
Parts, Imports	223	211	244	200	155	150
Intra-EU Imports	0	0		0	0	
Other Imports	0	8	8	0	8	
Total Imports	223	223	256	200	168	155
Total Supply	793	793	826	890	858	775
Whole, Exports	8	5	5	11	8	5
Parts, Exports	0	2	2	0	2	2
Intra EU Exports	0	0		0	0	
Other Exports	0	1	1	0	1	1
Total Exports	8	8	8	11	11	8
Human Consumption	785	785	818	879	847	767
Other Use, Losses	0	0		0	0	
Total Dom. Consumption	785	785	818	879	847	767
Total Use	793	793	826	890	858	775
Ending Stocks	0	0		0	0	
Total Distribution	793	793	826	890	858	775
CY Imp. from U.S.	150	150		110	110	100
CY Exp. to U.S.	0	0		0	0	
Balance	0	0	0	0	0	0

*Not Official USDA Data

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

Meat, Beef and Veal Ukraine	2008			2009		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post
			Data			Data
Slaughter (Reference)	3,327	3,327	3,372	3,025	3,025	3,025
Beginning Stocks	15	15	15	15	15	15
Production	480	480	480	442	442	442
Intra-EU Imports	0	0	0	0	0	0
Other Imports	25	22	20	70	75	14
Total Imports	25	22	20	70	75	14
Total Supply	520	517	515	527	532	471

Intra EU Exports	0	0	0	0	0	0
Other Exports	25	17	17	13	9	7
Total Exports	25	17	17	13	9	7
Human Dom. Consumption	480	485	483	499	508	449
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	480	485	483	499	508	449
Ending Stocks	15	15	15	15	15	15
Total Distribution	520	517	515	527	532	471
CY Imp. from U.S.	0	7	1	0	25	1
CY. Exp. to U.S.	0	0	0	0	0	0
Balance	0	0	0	0	0	0
Inventory Balance	0	0	0	0	0	0
Weights	144	144	142	146	146	146
Production Change	-11	0	0	-8	0	-8
Import Change	92	0	0	180	0	-30
Export Change	-50	0	0	-48	0	-59
Trade Balance	0	-5	-3	-57	-66	-7
Consumption Change	-5	0	0	4	0	-7
Population	0	0	0	0	0	0
Per Capita Consumption	0	0	0	0	0	0
TS=TD			0			0

*Not Official USDA Data

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

Meat, Swine Ukraine	2008			2009		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post
			Data			Data
Slaughter (Reference)	7,000	6,933	6,933	6,000	5,030	0
Beginning Stocks	22	22	22	22	22	22
Production	603	603	603	500	440	440
Intra-EU Imports	0	0	0	0	0	0
Other Imports	140	140	183	180	180	50
Total Imports	140	140	183	180	180	50
Total Supply	765	765	808	702	642	532
Intra EU Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
Total Exports	0	0	0	0	0	0
Human Dom. Consumption	743	743	786	680	620	490
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	743	743	786	680	620	510
Ending Stocks	22	22	22	22	22	22
Total Distribution	765	765	808	702	642	532
CY Imp. from U.S.	0	0	11	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0
Balance	0	0	0	0	0	0

Inventory Balance	0	0	0	0	0	0
Weights	86	87	87	83	87	0
Production Change	-5	0	0	-17	0	-24
Import Change	71	0	0	29	0	-73
Export Change	-100	0	0	0	0	0
Trade Balance	-140	-140	-183	-180	-180	-50
Consumption Change	4	0	0	-8	0	-35
TS=TD			0			0

**Not Official USDA Data*