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Country: Ukraine

Post: Kyiv

Report Category: Dairy and Products

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Report Highlights:

Fluid milk production in Ukraine declined in 2019 and is expected to remain on a downward trend in 2020, due to a decrease in the dairy cow population. Fluid milk production in households remain inefficient. The number of modern large dairy farms is too small to reverse the trend. In 2020 Ukraine is expected to decrease export of all exportable dairy products. Spread of COVID-19 disease has limited the negative impact associated with the lower domestic demand from restaurants and other public establishments. Higher disposable incomes led to a growth in imports of premium dairy products.

Data included in this report is not official USDA Data. Official USDA data is available at http://www.fas.usda.gov/psd
Data for the Autonomous Republic of Crimea is included into the PSD tables wherever possible.

Executive Summary:

Fluid milk production in Ukraine decreased in 2019 and has continued to decline for the first ten months of 2020. The number of dairy cows in both the industrial and household sectors is declining. Lower fluid milk prices for low-quality household milk in the spring and summer of 2020 contributed to this decline. Household producers saw a smaller return on investments and responded with an increase in animal slaughter. A decrease in the number of rural dwellers, due to an outflow of the working population and an aging rural population, has also contributed to a long-term trend in the drop of cattle numbers. Household producers continue to be responsible for the lion's share of fluid milk production and their production contracted the most. Industrial farms held their decline under one percent despite a comparable decrease in the number of cows.

Dairy product production remained restrained by the shrinking supply of raw milk. In 2019 Ukraine became a net importer of dairy products. In particular, imports of cheese and butter for domestic consumption increased significantly. Growing disposable incomes and a stable macroeconomic situation contributed to an increase in consumption. Ukrainian dairy processors are focused predominately on exporting cheaper cheese and butter to neighboring markets. Simultaneously, Ukraine imports premium products. The European Union (EU) is responsible for almost all of Ukraine's imports for both products.

China became Ukraine's number one export destination for dry milk products in 2019 but stopped imports in 2020. Exports to China led to a significant increase of WMP and SMP production in 2019. Production of WMP was not previously attractive to Ukrainian producers. However, with better margins from NFDM and butter production their production increased. Markets of dried dairy products remain diversified in 2020. Industry reportedly is holding unusually significant NFDM stocks, suggesting some additional export potential at yearend. Ukrainian processors and traders do not have the financial resources to keep significant stocks for extended time periods.

Overall Ukraine is expected to continue to lose its world dairy market share in 2021. A shrinking fluid milk supply, produced predominately in households, will be the major reason for this development.

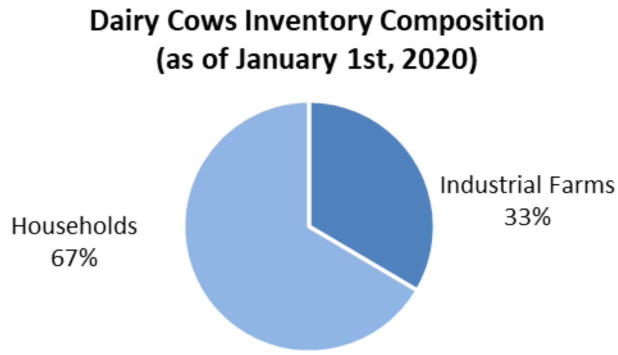
PSD Note: Ukraine resumed publication of separate Dried Skim Milk and Dried Whole Milk powder production indicators. PSD tables contain official 2019 production data and 2020 forecasts based on new statistics.

Production:

<u>*Raw Milk*</u>

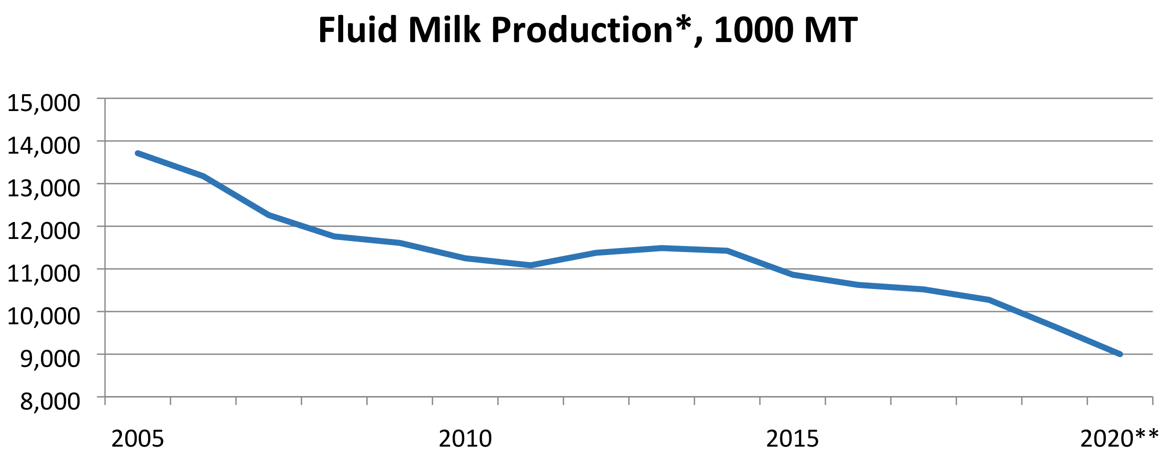
In 2019, Ukrainian raw milk production continued its 30-year long gradual decrease. This trend is not expected to change in 2020-21. The majority of Ukrainian milk is still produced in private households. Cow productivity in the private sector is low and it is not fully compensated by a lower production cost model. The decrease in the number of workers in rural areas, an aging rural population, better employment opportunities in urban Ukraine and in neighboring EU countries deplete the Ukrainian rural workforce. Labor-intensive household milk production is becoming less attractive, despite rather high milk procurement prices and non-monetary incentives from the large dairy processors. The number of cows in the household sector is steadily decreasing and this trend is not expected to change in the near or remote future.

The number of cows in both the industrial and household sectors contracted in 2020. However, despite a notable 6.2 percent contraction in the industrial cow herd, productivity of the remaining animals increased significantly. Therefore, the industrial dairy yield contracted far less than one percent. However, the cow population among household producers contracted by eight percent, with a proportional contraction in the milk yield.

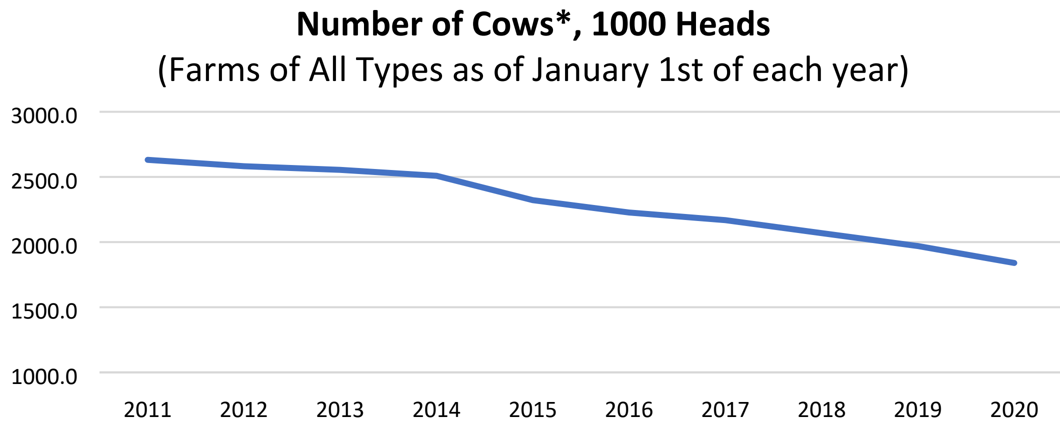


Source: Ukraine's State Statistics Service

Industrial farms are responsible for one third of Ukraine's dairy yield and this industrial production can be split into two categories: specialized dairy farms and non-specialized small and mid-size farms. The non-specialized companies maintain their dairy enterprises as "legacy" businesses or as social rural employment projects that accompanies their profitable crop production businesses. The number of specialized dairy farms is growing. These farms are profitable and have expanded their cow population. The majority of industrial milk is still produced by non-specialized farms. Among these producers the number of diary animals has decreased.

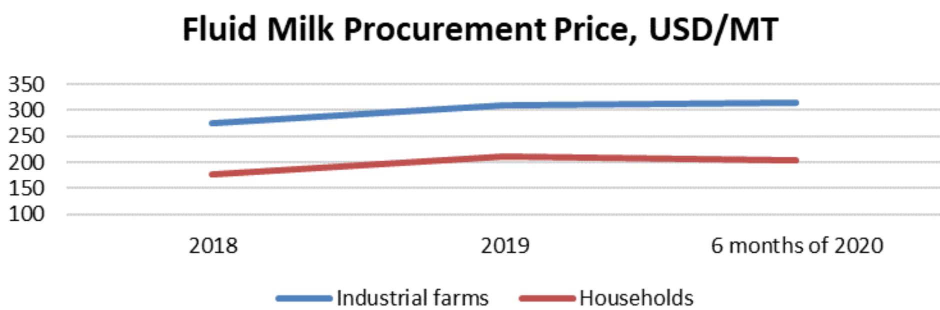


Source: State Statistics Service of Ukraine; FAS Kyiv calculations;
**Including Crimea*
*** Forecast*



Source: State Statistics Service of Ukraine; FAS Kyiv calculations;
**Including Crimea*
*** Forecast*

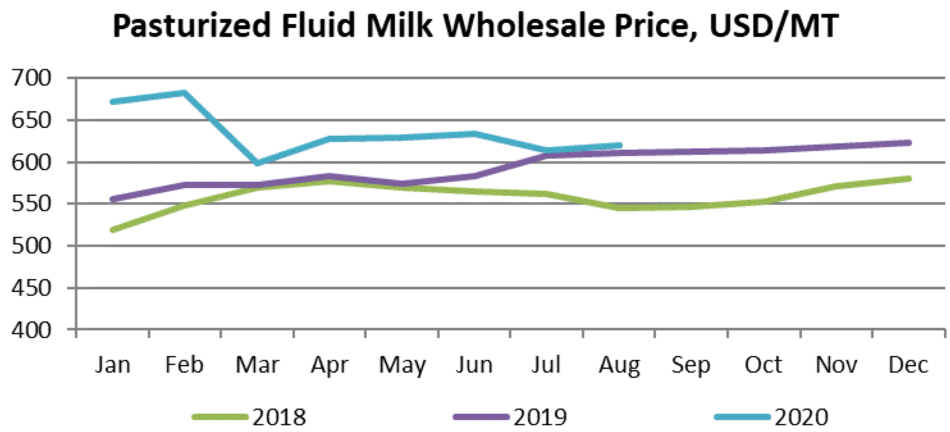
A lack of modern milking equipment in the household production sector results in an inferior milk quality and a lower raw milk procurement price. In general, industrial producers receive a one- third price premium comparison to the price offered to household producers. This gap widened in 2020: the average industrial price continued to climb (although industry sources believe that local maximum is already achieved), while the price for household producers remained flat or even decreased slightly.



Source: State Statistics Service of Ukraine; FAS Kyiv calculations

<u>*Pasteurized Fluid Milk*</u>

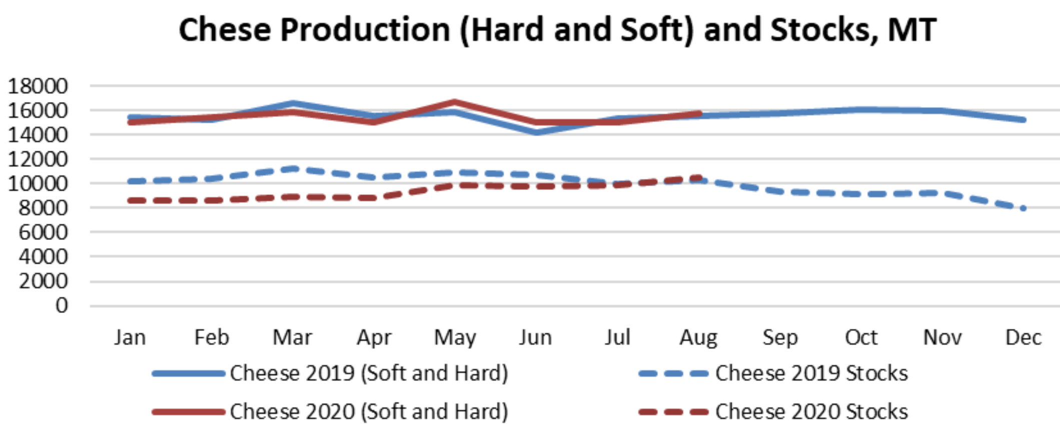
Shrinking raw milk supplies resulted in volatile prices for pasteurized fluid. After a peak in early 2020, prices dropped driven by increased imports (predominately from neighboring Poland). Imports of fluid milk picked up sharply in 2019, significantly exceeding Post's PSD forecast. Fluid milk imports in retail packaging were not expected, neither by local farmers nor by processors, who started to lose their share in retail. In 2020 fluid milk imports continued to grow and are expected to reach another high in 2021. The Ukrainian industry is losing its own market share due to high prices and short supply.



Source: Ukraine's State Statistics Service, FAS/Kyiv calculations

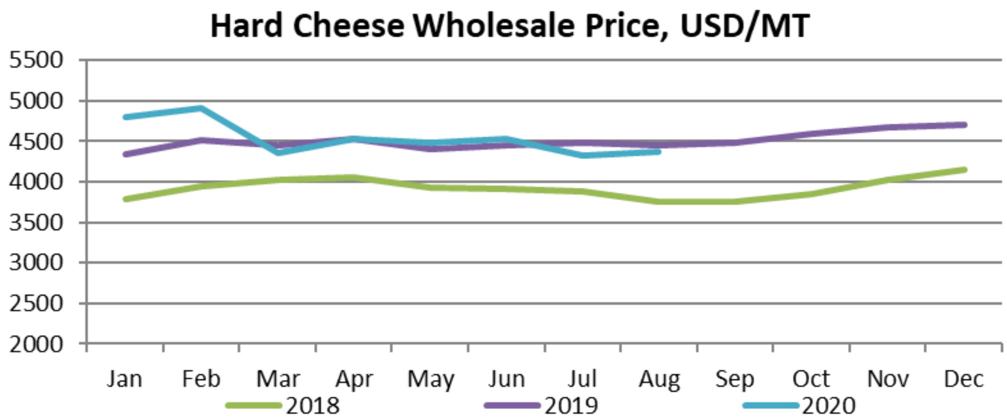
<u>*Cheese (Hard and Soft)*</u>

Ukrainian cheese production continues to slide. Ukrainian producers remain under pressure from French, Italian and Dutch cheese in the upper market segment and Polish cheese in the middle segment. High milk prices and the short supply leave Ukrainian cheesemakers with slim margins, especially in the lower market segment where the majority of them found themselves in 2020. This situation is not expected to change in 2021.



Source: State Statistics Service of Ukraine

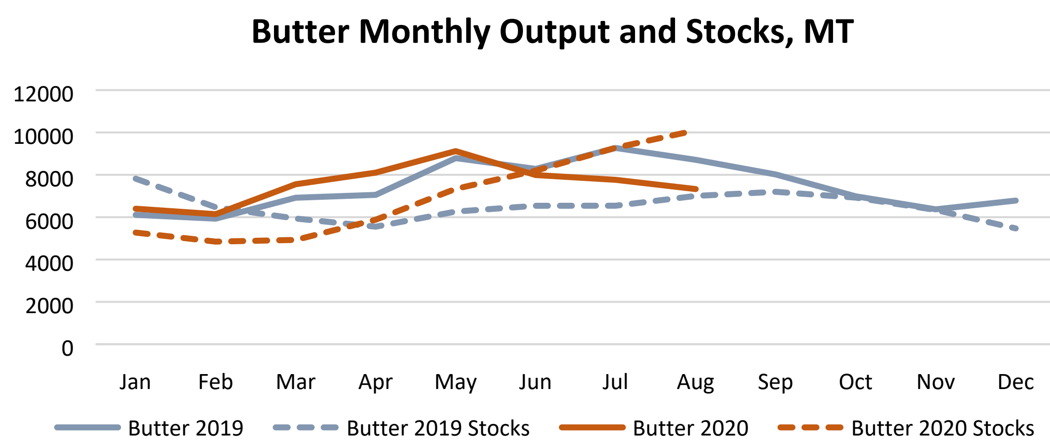
Similar to the fluid milk market situation, any attempt to increase prices for hard cheeses in 2020 resulted in higher imports and drop in prices back to the 2019 level.



Source: State Statistics Service of Ukraine

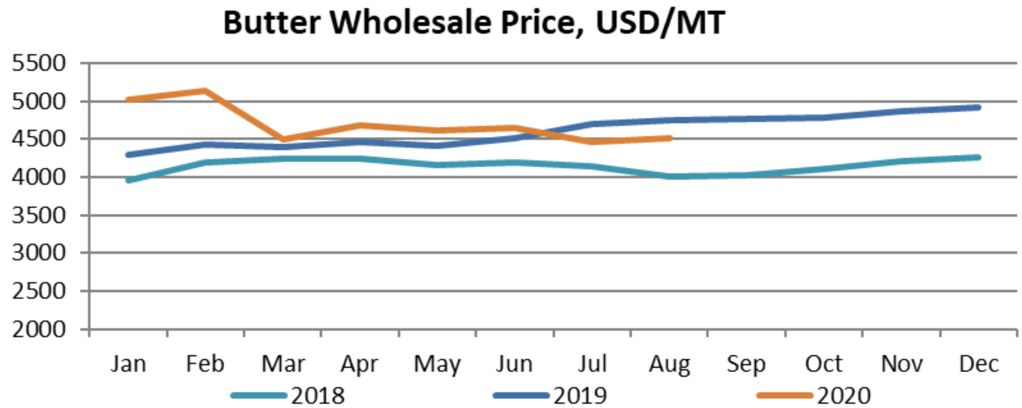
Butter

High raw milk prices led to lower butter production early in 2020. A gradual recovery in production recovery in the spring and summer of 2020 was then hit by a lower demand in the export market and a resulting rapid buildup in butter stocks. As of September 2020, butter stocks were at an all-time high, depressing butter production in the remaining months of 2020. Local demand is relatively stable and an insignificant increase in consumption will not help deplete the large build-up in stocks. Therefore, these are likely to be exported.



Source: State Statistics Service of Ukraine

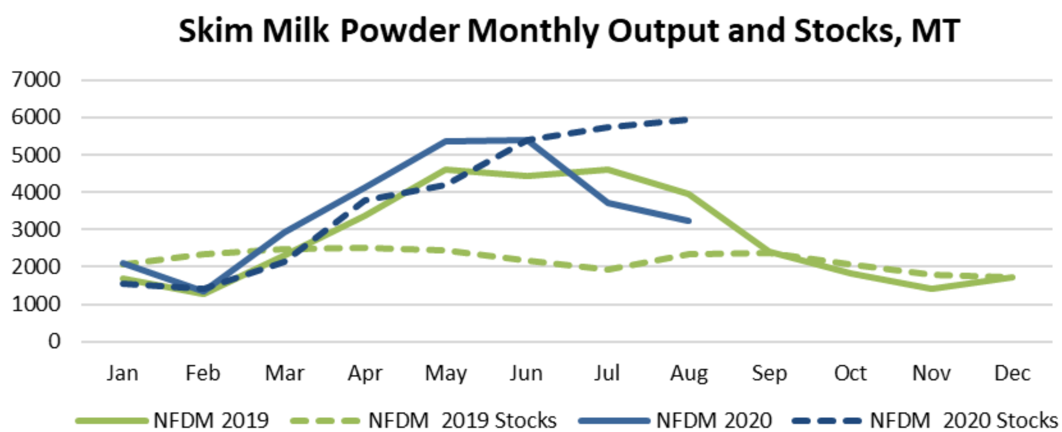
Butter prices have behaved in a manner similar to the prices for other dairy products: after a winter price surge and an increase in imports, the prices returned to previous averages. However, imports of high-quality butter continued to increase, and quantity of imported product is now comparable to Ukrainian exports. Due to the milk production shortage and high butter prices, imports are likely to remain stable in 2021.



Source: State Statistics Service of Ukraine

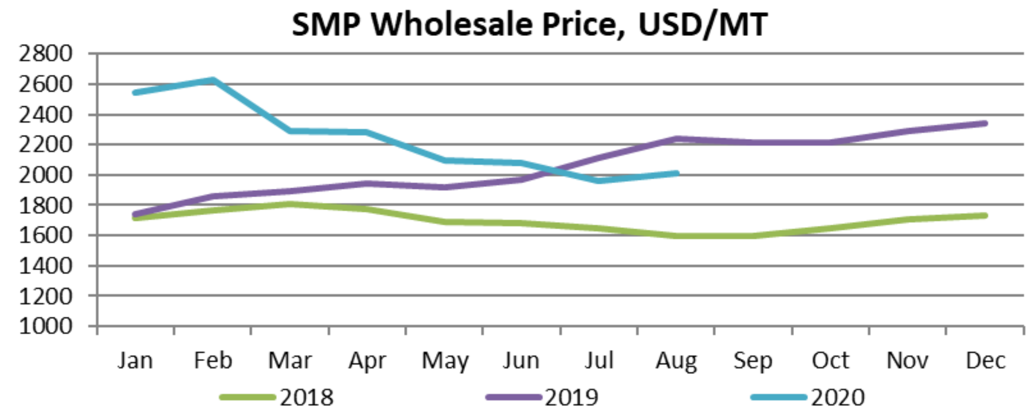
SMP

Production of SMP is tied to butter production. Similar to butter, 2020 production is impacted by shrinking milk supplies and an unusual build-up in stocks, depressing summer production significantly.



Source: State Statistics Service of Ukraine

This excess supply immediately led to a market correction with prices dropping by 25 percent by the middle of 2020. Production of SMP and butter are expected to decrease in 2021.

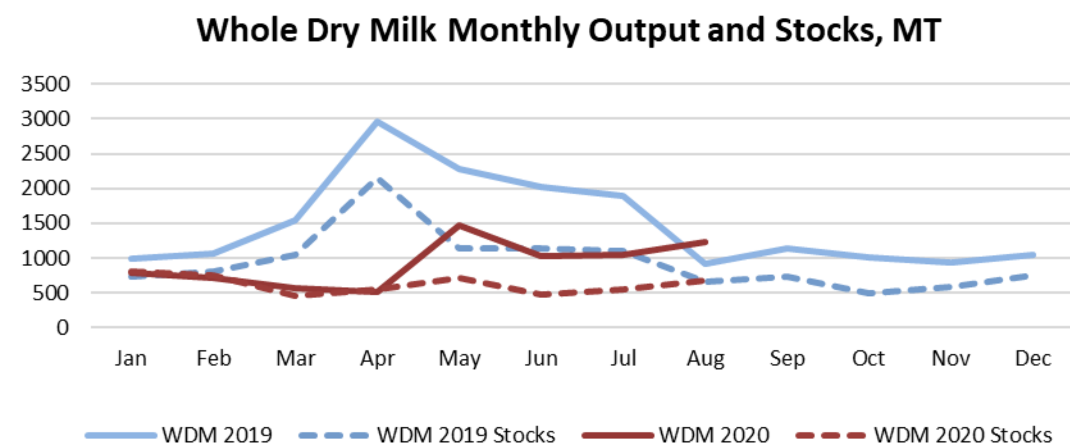


Source: State Statistics Service of Ukraine

Whole Milk Powder

PSD Note: Ukrainian Statistics Service resumed publication of separate production numbers for SMP and WMP. Official production numbers for 2019 replaced post estimates.

Although traditional domestic and export demand for WMP are insignificant, 2019 production was unusually high, driven by demand from China. When Chinese imports stopped, 2020 production returned to the traditionally low levels. Absent external demand, the 2021 production is expected to remain flat.

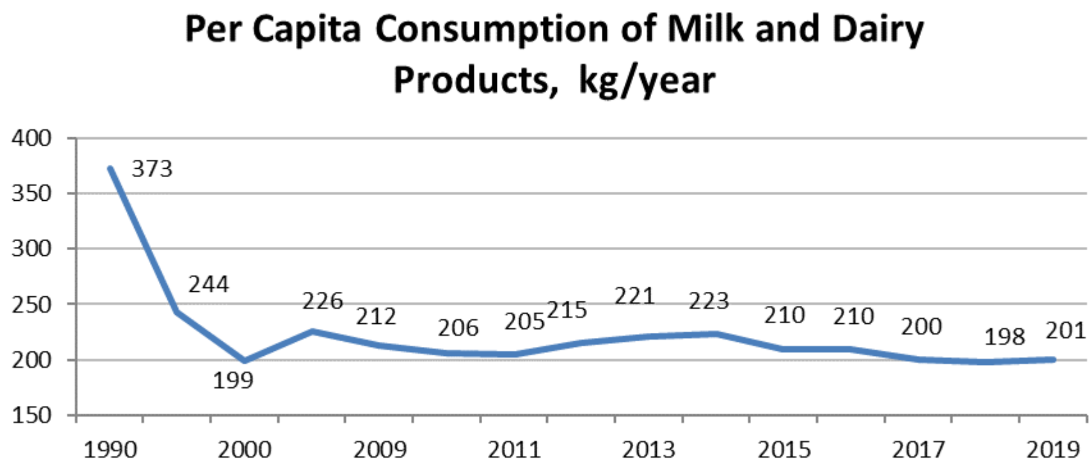


Source: State Statistics Service of Ukraine

Consumption:

Disposable incomes of Ukrainians continued to climb, both in 2019 and 2020. Demand and real per-capita consumption of dairy products grew in 2019. In 2020 demand continued its growth, especially in upper and middle market segments. The spread of SARS-CoV-2 virus and the country lockdown from March to early April 2020 resulted in a drop in demand among restaurants and other public establishments. However, retail demand remained strong.

Dairy substitute products (such as soymilk, oat milk and many others) increased their presence in retail. Selected groups of consumers such as vegans or lactose-intolerant individuals switched to new (predominately imported) products. Nevertheless, the market share and influence on mass consumption of dairy products for dairy substitutes is insignificant.

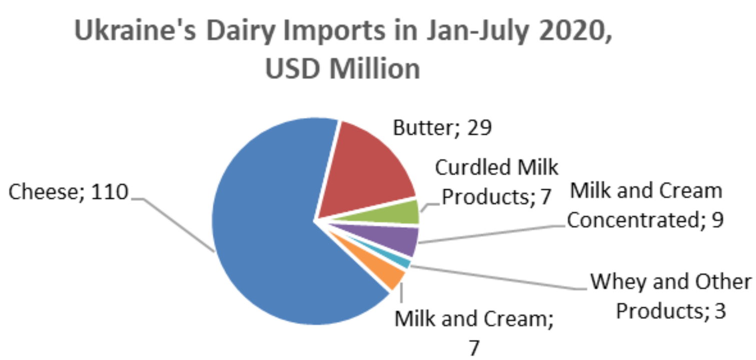


Source: *State Statistics Service of Ukraine*

The increase in demand in the upper and middle market segments resulted in an increase in imports of retail-packaged dairy products. Imports also grew in these market segments where Ukraine has been historically self-sufficient, and even exported some products.

Trade:

In 2020 Ukraine became an importer of many dairy products for the domestic retail market but remained an exporter of dairy commodities. A growing domestic demand for sophisticated dairy products, along with shrinking raw milk supplies, resulted in these developments.



Source: *Trade Data Monitor, LLC*

High quality cheese products of different types constituted the majority of dairy imports. Imports of butter grew significantly in 2019 and remains high in 2020. Infant formula, yogurt and other processed dairy products constitute the remaining share of imports. The EU's market share increased significantly and reached 96.4 percent of all dairy imports. High value added middle and upper market segment products constitute the vast majority of imports.

Although no U.S. dairy products are present on the Ukrainian market, recent developments opened up some niche markets, especially for cheese and premium processed dairy products.

Cheese

Once a major exportable commodity for Ukraine, cheese has become one of Ukraine's major imports, although some exports remain. Ukraine exhibits a typical lower-middle income country trade pattern: mass-market cheese produced by domestic processors is exported, while middle market segment (predominately cheese from Poland) and upper market segments (France, Netherlands and Germany cheeses) are imported. Although Ukrainian cheesemakers are making significant efforts to develop their own versions of these premium products, they have a long way to go.

Exports

Ukrainian traditional mass-market hard cheeses have limited export market opportunities due to its particular taste and quality. The biggest demand is concentrated in Former Soviet Union (FSU) countries. Due to the unavailability of the Russian market, sales are limited to only a few neighboring markets and Egypt.

Ukraine's Major Export Destinations for Cheese, MT

Partner	Calendar Year					January-July		
	2015	2016	2017	2018	2019	2019	2020	%Δ 2020/19
World	10816	8051	9063	8385	7210	3671	3009	-18,03
Moldova	2678	2598	2590	2771	2623	1503	1134	-24,55
Kazakhstan	3445	3683	3735	2970	2542	938	1053	12,26
Egypt	69	690	989	943	598	506	230	-54,55
Other not Listed	4625	1078	1745	1696	1444	726	593	-18,32

Source: Trade Data Monitor, LLC

Imports

Ukraine imports both high quality mass-market and gourmet cheeses. Mass market cheese (mainly Edam, Gouda, Emmental and Cheddar) occupy approximately one-half of the market. Another half is occupied by dozens of different fresh cheeses, processed cheese and blue-veined cheeses. Despite efforts conducted in recent years, Ukrainian domestic producers' presence in the premium cheese category is limited. The EU dominates this market with almost 99 percent market share.

Ukraine's Major Cheese Suppliers, MT

Partner	Calendar Year					January-July		
	2015	2016	2017	2018	2019	2019	2020	%Δ 2020/19
_World	5379	7058	10010	13722	23724	10377	25301	143,82
Poland	1351	2707	3952	5015	9823	4360	12814	193,90
Germany	1586	1866	2588	3594	5665	2540	4865	91,54
France	588	735	1096	1894	2832	1347	2090	55,16
Netherlands	269	555	769	1052	2017	633	1848	191,94
Italy	327	328	385	544	820	364	944	159,34
Denmark	48	102	161	344	651	307	415	35,18
Other not Listed	1213	765	1058	1278	1916	825	2325	181,82

Source: Trade Data Monitor, LLC

The competitive market landscape is not expected to change in 2021. Imports are expected to grow, while exports will remain limited. Possible increases in 2021 cheese imports are modest: COVID-related economic slowdown and expected GDP contraction will not allow for a very significant demand growth in 2021.

Butter

After a significant export peak caused by unusually high demand (and price) for butter in the world market, Ukraine decreased exports in 2019 and continued to do so in 2020. Facing shrinking raw milk supplies, the only way to increase exports was through substitution of animal fats with vegetable oils in processed dairy products offered to domestic consumers. A gradual decrease in production and exports is expected to continue in 2021.

Exports

Ukraine continues to ship small quantities of butter predominately to traditional FSU neighbors. After a trade peak in 2018, Dutch traders stopped imports completely. Exports are expected to shrink in 2021, following the raw milk supplies. Exports to Central Asia countries may also be interrupted by transshipment restrictions imposed by the Russian Federation in early September 2020. Limited domestic demand and the lack of export markets led to a significant increase in butter stocks. Ukrainian traders and processors have limited resources which prevents them from keeping those stocks for a prolonged period. Stored butter is likely to be exported by 2020 yearend. Export number for 2020ares lower because of the unusually high summer butter stocks resulted in unusually low summer butter production.

Ukraine's Major Export Destinations for Butter, MT

Partner	Calendar Year					January-July		
	2015	2016	2017	2018	2019	2019	2020	%Δ 2020/19
World	10417	9140	27559	28815	16167	11480	5915	-48,48
Azerbaijan	1831	138	864	1474	2189	1218	2122	74,22
Moldova	296	455	1175	1640	2074	825	896	8,61
Georgia	894	1816	2197	1784	1673	1255	922	-26,53
Netherlands	0	700	2237	3036	1420	1400	0	-100
Israel	32	106	482	382	1317	718	514	-28,41
Armenia	706	614	837	888	1152	601	553	-7,99
Morocco	2309	1323	6514	6707	1000	1000	0	-100
Other not Listed	4346	3986	13256	12902	5342	4462	907	-80

Source: Trade Data Monitor, LLC

Imports of butter grew fast in 2019-20. High prices for domestically produced products allowed EU exporters to enter both the premium and mainstream butter segments of the Ukrainian retail sector. The presence of Polish butter is especially strong in adjacent Ukrainian regions.

Ukraine's Major Butter Suppliers, MT

Partner	Calendar Year					January-July		
	2015	2016	2017	2018	2019	2019	2020	%Δ 2020/19
World	451	995	747	1091	3388	586	7581	1193,69
Netherlands	78	157	300	355	1974	170	1266	644,71
Poland	0	62	0	2	569	5	4789	95680
Germany	116	11	139	360	316	139	467	235,97
France	126	165	122	128	184	78	213	173,08
New Zealand	50	276	0	16	147	115	0	-100
Other not Listed	29	271	118	167	129	34	808	2276

Source: Trade Data Monitor, LLC

Skim Milk Powder

Exports

Ukraine's exports of SMP are diversified with multiple destinations in the neighboring FSU Republics, Far East Asia and Northern Africa. China became Ukraine's largest SMP destination in 2019 after approval of a significant number of Ukrainian dairy processors. Altogether 35 different Ukrainian companies are now approved for export. Ukrainian dairy products covered shortages in the Chinese market. However, Ukrainian exports dropped in 2020 when China partially restored traditional trade flows. Ukraine's SMP exports are not expected to recover in 2021.

Ukraine's Major Export Destinations for SMP, MT

Partner	Calendar Year					January-July		
	2015	2016	2017	2018	2019	2019	2020	%Δ 2020/19
World	34499	34138	28724	23340	19735	14921	10042	-32,70
China	0	0	100	2050	3625	3450	910	-73,62
Bangladesh	5771	5032	5327	5275	3490	2565	1100	-57,12
Georgia	3598	1670	2398	2678	1690	1172	1215	3,67
Armenia	1728	1919	2208	1719	1225	920	782	-15
Philippines	475	875	1168	877	1182	1032	250	-75,78
Egypt	2355	995	375	875	1175	925	429	-53,62
Other not Listed	20572	23647	17150	9867	7351	4858	5358	10,29

Source: Trade Data Monitor, LLC

Imports of SMP are growing but are still insignificant. Ukraine imports higher quality SMP predominately from EU countries.

Whole Milk Powder

Led by Chinese demand changes, production and export of WMP peaked in 2019 and dropped in 2020. Traditionally, WMP production in Ukraine was insignificant, as the SMP and butter combo provided Ukrainian processors better margins.

Exports

Export of WMP returned to their traditional size and patterns in 2020. The disappearance of Chinese importers led to a drop in both production and exports. Similar to SMP, exports are expected to decrease further in 2021. Domestic demand for WMP remains insignificant.

Ukraine's Major Export Destinations for WMP, MT

Partner	Calendar Year					January-July		
	2015	2016	2017	2018	2019	2019	2020	%Δ 2020/19
World	2485	1982	3857	4231	8599	7295	2699	-63
China	0	0	0	100	4201	4150	1	-99,98
Israel	27	186	923	778	784	428	731	70,79
Armenia	736	765	699	493	656	484	444	-8,26
Kuwait	0	0	0	600	575	475	1	-99,79
Poland	0	0	0	400	520	280	120	-57,14
Algeria	50	50	825	200	400	400	150	-62,50
Lebanon	309	135	350	350	295	195	175	-10,26
Other not Listed	1365	847	1060	1309	1168	883	1079	22,20

Source: Trade Data Monitor, LLC

Import of WMP is insignificant.

Statistical Tables

Fluid Milk PSD Table*

Dairy, Milk, Fluid Ukraine	2019		2020		2021
	Market Year Begin: Jan 2019		Market Year Begin: Jan 2020		Market Year Begin: Jan 2021
	USDA Official	New Post	USDA Official	New Post	New Post
Cows In Milk	2 000	1 970	1 900	1 840	1 750
Cows Milk Production	9 900	9 646	9 690	9 000	8 600
Other Milk Production	220	220	250	190	180
Total Production	10 120	9 866	9 940	9 190	8 780
Other Imports	1	4	1	13	25
Total Imports	1	4	1	13	25
Total Supply	10 121	9 870	9 941	9 203	8 805
Other Exports	30	25	35	15	6
Total Exports	30	25	35	15	6
Fluid Use Dom. Consum.	4 800	4 967	4 866	4 550	4 409
Factory Use Consum.	4 300	3 887	4 100	3 668	3 450
Feed Use Dom. Consum.	991	991	940	970	940
Total Dom. Consumption	10 091	9 845	9 906	9 188	8 799
Total Distribution	10 121	9 870	9 941	9 203	8 805

**These are not official USDA numbers*
Crimea numbers are included

Hard and Soft Cheese PSD Table*

Dairy, Cheese Ukraine	2019		2020		2021
	Market Year Begin: Jan 2019		Market Year Begin: Jan 2020		Market Year Begin: Jan 2021
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	9	9	11	8	9
Production	195	187	197	185	180
Other Imports	24	24	40	45	50
Total Imports	24	24	40	45	50
Total Supply	228	220	248	238	239
Other Exports	7	7	6	6	5
Total Exports	7	7	6	6	5
Human Dom. Consumption	210	205	222	223	225
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	210	205	222	223	225
Total Use	217	212	228	229	230
Ending Stocks	11	8	20	9	9
Total Distribution	228	220	248	238	239

*These are not official USDA numbers
Crimea numbers are included

Butter PSD Table*

Dairy, Butter Ukraine	2019		2020		2021
	Market Year Begin: Jan 2019		Market Year Begin: Jan 2020		Market Year Begin: Jan 2021
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	9	9	14	6	6
Production	103	89	90	87	82
Other Imports	4	3	5	10	13
Total Imports	4	3	5	10	13
Total Supply	116	101	109	103	101
Other Exports	20	16	14	14	7
Total Exports	20	16	14	14	7
Domestic Consumption	82	79	83	83	88
Total Use	102	95	97	97	95
Ending Stocks	14	6	12	6	6
Total Distribution	116	101	109	103	101

*These are not official USDA numbers
Crimea numbers are included

Skim Milk Powder PSD Table*

Dairy, Milk, Nonfat Dry Ukraine	2019		2020		2021
	Market Year Begin: Jan 2019		Market Year Begin: Jan 2020		Market Year Begin: Jan 2021
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	3	3	3	2	2
Production	43	34	38	36	30
Other Imports	0	1	1	3	3
Total Imports	0	1	1	3	3
Total Supply	46	38	42	41	35
Other Exports	20	20	16	15	12
Total Exports	20	20	16	15	12
Human Dom. Consumption	23	16	24	24	21
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	23	16	24	24	21
Total Use	43	36	40	39	33
Ending Stocks	3	2	2	2	2
Total Distribution	46	38	42	41	35

**These are not official USDA numbers*
Crimea numbers are included

Whole Milk Powder PSD Table*

Dairy, Dry Whole Milk Powder Ukraine	2019		2020		2021
	Market Year Begin: Jan 2019		Market Year Begin: Jan 2020		Market Year Begin: Jan 2021
	USDA Official	New Post	USDA Official	New Post	New Post
Beginning Stocks	1	1	1	1	1
Production	16	18	18	11	10
Other Imports	0	0	0	0	0
Total Imports	0	0	0	0	0
Total Supply	17	19	19	12	11
Other Exports	9	9	5	5	4
Total Exports	9	9	5	5	4
Human Dom. Consumption	7	9	12	6	6
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	7	9	12	6	6
Total Use	16	18	17	11	10
Ending Stocks	1	1	2	1	1
Total Distribution	17	19	19	12	11

**These are not official USDA numbers*
Crimea numbers are included

Attachments:

No Attachments