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Report Highlights:

Ukraine's chicken meat production and export will continue to grow in 2020, but at a somewhat slower rate. At the same time, Ukraine will remain an importer of cheap offal, predominantly from the European Union (EU). In late 2019, Ukraine and the EU finalized a new, increased, tariff rate quota (TRQ) for exports of Ukrainian poultry parts. However, 2019 exports to the EU will exceed this new agreed upon TRQ due to shipments made prior to the new agreement. The share of Ukrainian poultry exports destined for the EU will continue to shrink in 2020. Ukraine will concentrate on markets in the Middle East, Eastern Europe and Northern Africa. Domestic consumption of cheap parts and offal will grow insignificantly, due to income growth. The High Path Avian Flu outbreaking January 2020 will have only a moderately negative impact on 2020 exports.

Data included in this report is not official USDA data. Official USDA data is available at https://apps.fas.usda.gov/psdonline/app/index.html#/app/home

Executive Summary

Ukrainian chicken production will continue to expand in 2020. The industry is dominated by one large producer – Myronivsky HleboProduct (MHP), which is responsible for over 70 percent of total industrial chicken production. The company finished a major expansion program which led to a significant increase in production and exports in 2019. As a result, Ukraine became the world's seventh largest chicken meat exporter. Post estimates that Ukrainian poultry production will continue to grow in 2020, although at a slower rate. The industry is likely to make small steps aimed at increasing efficiency and better utilization of existing facilities. Consumption of domestically produced chicken meat is expected to increase only marginally. Almost all additional production volumes will be exported to markets in the Middle East, the former Soviet Union states and North Africa. Ukraine will continue to explore new market opportunities in Sub-Sahara Africa and Far East Asia.

The EU market for Ukrainian chicken cuts is expected to mature in 2020. On December 5, 2019 the Ukrainian Parliament approved amendments to the Deep and Comprehensive Free Trade Area (DCFTA) Agreement proposed by the European Commission. According to the new law, Ukraine's export quota for chicken cuts was increased by 50 thousand MT (TMT). This amendment ended a four-year saga of over-the-quota supplies of Ukrainian chicken meat exported to the EU. Ukrainian officials agreed to an official TRQ increase in exchange for closure of the TRQ loopholes that allowed for HS Code manipulations. Please, refer to the most recent Poultry Annual GAIN Report for the full story. Ukraine's 2019 exports to Europe will exceed the new TRQ due to high exports in early 2019, prior to finalizing the new TRQ.

PSD numbers were reviewed to match actual trade statistics and situation in the major export markets. Ukraine's 2019 chicken meat exports increased insignificantly. An import ban introduced by Saudi Arabia in November, 2019 (lifted in January of 2020) did not impact Ukraine's total poultry exports significantly.

Ukraine reported an Highly Pathogenic Avian Flu (HPAI) outbreak in one central region in January of 2020. The EU reacted with a country-wide import ban, undermining Ukraine's January exports. Regionalization of the ban will help only partially, as MHP's newest and most efficient facility is located in the impacted region. Although notable, the ban is not expected to have a significant impact on 2020 overall export numbers.

Production

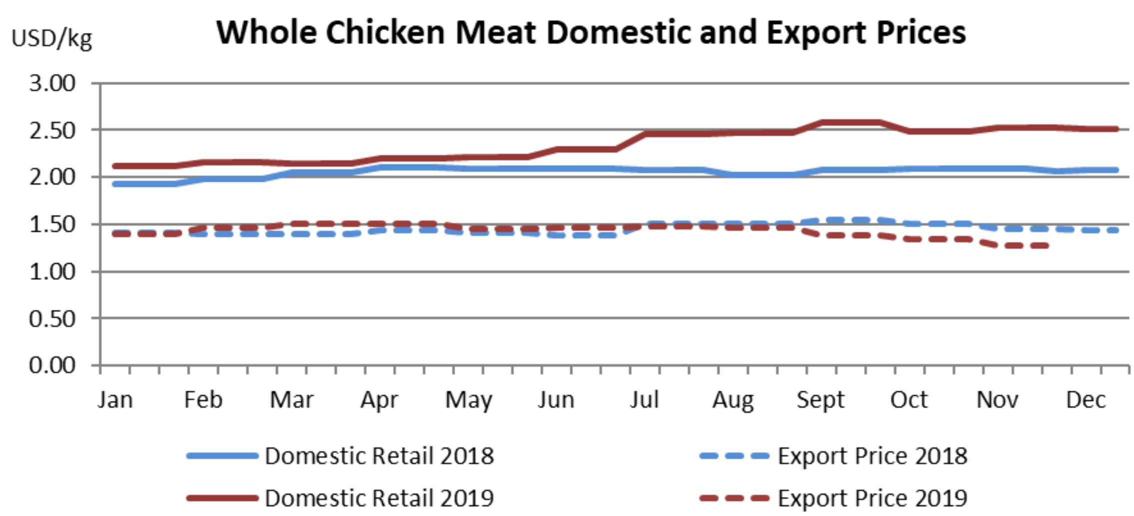
Ukraine's industrial chicken production continues to be concentrated in a few large integrated facilities. MHP remained the largest Ukrainian chicken producer, finishing a major production expansion program in central Ukraine with a total investment in excess of USD 1 billion. This large new facility was responsible for the majority of Ukraine's 2019 production growth. According to the company's investor report, MHP's production grew by 13 percent in 2019 (to 670 TMT). MHP remained focused on export markets with total exports exceeding 53 percent of production. Concomitantly MHP's domestic sales to the domestic market grew only marginally.

The launch of the new MHP facilities manifests the end of Ukraine's major poultry expansion cycle and will result in the slowdown of exponential increases in chicken meat production and export growth observed in recent years. In 2020, MHP production will continue to climb at the expense of increases in efficiency, but further growth will be modest. Facing significant export barriers in the form of import quotas and technical barriers to trade, MHP's exports to other countries will grow, nearing their current major destination markets. The recent acquisition of a Slovenian poultry producer, expansion programs in the Netherlands, Croatia, Serbia and Saudi Arabia will convert MHP into a large multinational producer.

Ukraine's six midsize chicken producers (Agromars, PK Dniprovskyi, Agrooven, Volodymyr-Volynsk Ptahofabryka, PK Hubyn and Ular) are vertically integrated and efficient. Although many of them have expanded production, their impact on Ukraine's combined total production figure is insignificant. These producers are trying to take various niche markets, targeting domestic, environmentally cautious or health-cautious consumer groups.

Household production is very limited, but stable. Rural families keep egg layers or dual-purpose breeds. Most of the chicken grown in household production are for in-family consumption and never enter official sales channels.

Ukraine's domestic whole chicken prices continued to increase in 2019, while export prices remained stable or even declined. The increasing spread between these two prices resulted in producers becoming more interested in the domestic market. According to industry sources, MHP will pay more attention to the domestic market for cheap offal. This may lead to a possible decrease in exports to the EU in 2020.



Source: State Statistics Service based on Ministry of Economic Development and Trade Surveys; National Bank of Ukraine; Trade Data Monitor, FAS/Kyiv

Consumption

Chicken consumption increased marginally in 2019 driven by higher incomes. The income growth trend is expected to continue into 2020. Poultry remains the cheapest protein and over half of animal protein consumed in Ukraine is poultry. Ukrainian pork production is depressed due to the spread of African Swine Fever, with the disease now recorded over the entire country. Beef remains too expensive for the majority of Ukrainian consumer. The Ukrainian domestic market for beef continues a downward trend, while Ukraine's exports of beef and live animals is increasing.

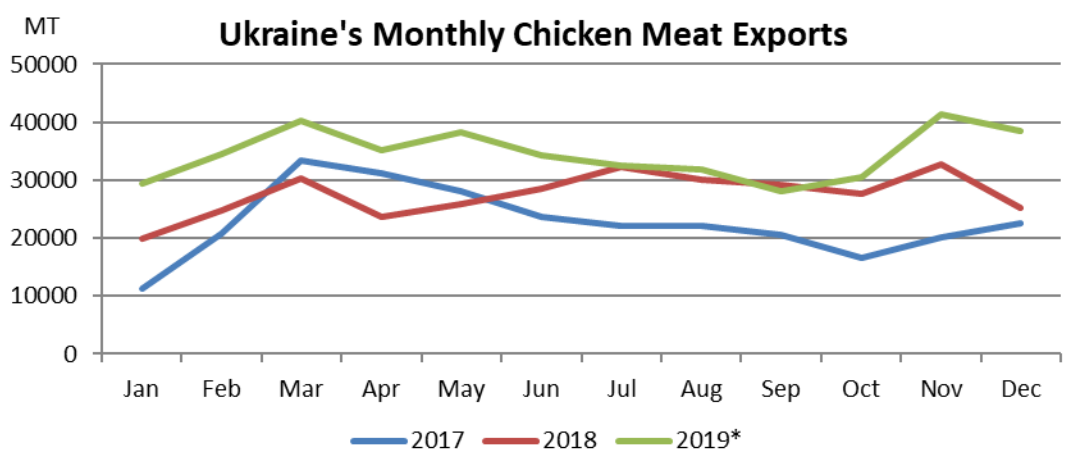
Trade

Ukraine's chicken meat exports are expected to reach another record high number in 2019, ranking it as the world's seventh largest exporter of chicken meat. Although access problems remain for some export markets, Ukraine's 2020 exports are likely to be even higher. HPAI is expected to have only a marginal impact on trade growth during January and February of 2020. Industry sources suggest that the growth in Ukraine's industrial production will be between seven and eight percent, and almost all excess supply of poultry will be exported.

Ukraine will continue to be a large importer of chicken offal. Ukraine's significant exports of premium chicken parts and whole birds would not be possible without domestic substitution of expensive chicken cuts with cheap imported poultry offal. All of Ukraine's cheap poultry imports are sourced from EU countries. These same Ukrainian poultry imports also served as an important trade argument in the tariff rate quota negotiations with the European Commission. However, poultry production growth in Ukraine and the increasing availability of domestically produced offal will eventually minimize the need for importation of European product. Post expects to see Ukraine's poultry imports start to diminish in 2020.

Exports

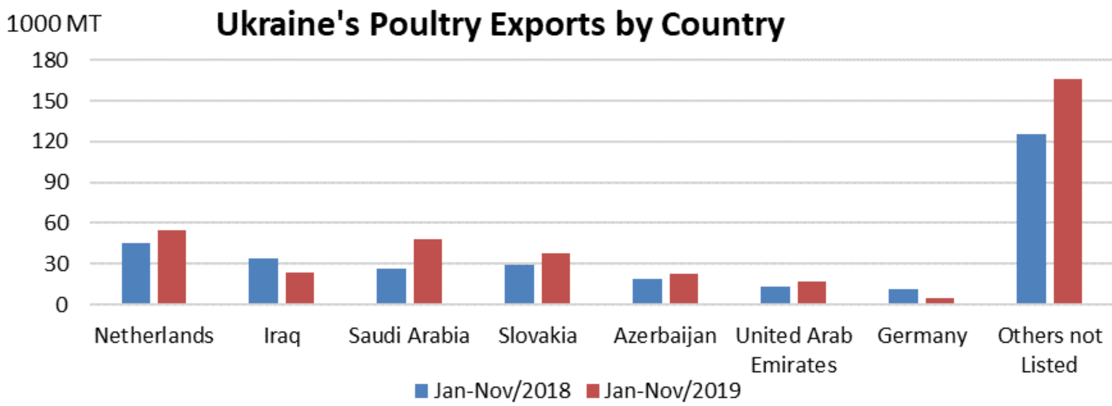
The Middle East became Ukraine's top export destination for chicken meat (by volume) and the second export destination for chicken meat (by value). The lucrative EU market remained number one in value but slid to the second place by volume. Neighboring former Soviet Union states and Eurasian Economic Union members are the third most important export region. Africa is the fourth. Exports of Ukrainian chicken meat to South-East Asia remain insignificant, but Ukrainian competent authorities are working hard to open the Chinese poultry market by the summer of 2020.



Source: World Trade Atlas

*Forecast

The share of Ukrainian exports going to the Middle Eastern markets will continue to grow in 2020, accommodating the additional Ukrainian chicken production. Exports to the EU will shrink to the newly agreed upon allocated TRQ. The role of Asian destinations in the Ukrainian poultry export market mix is expected to grow in the future.

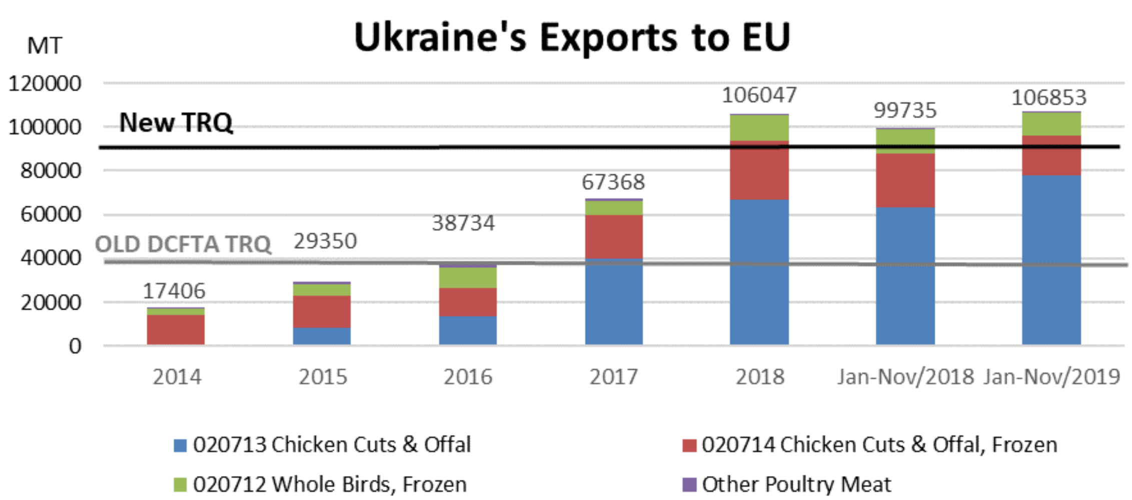


Source: Trade Data Monitor

The EU Market

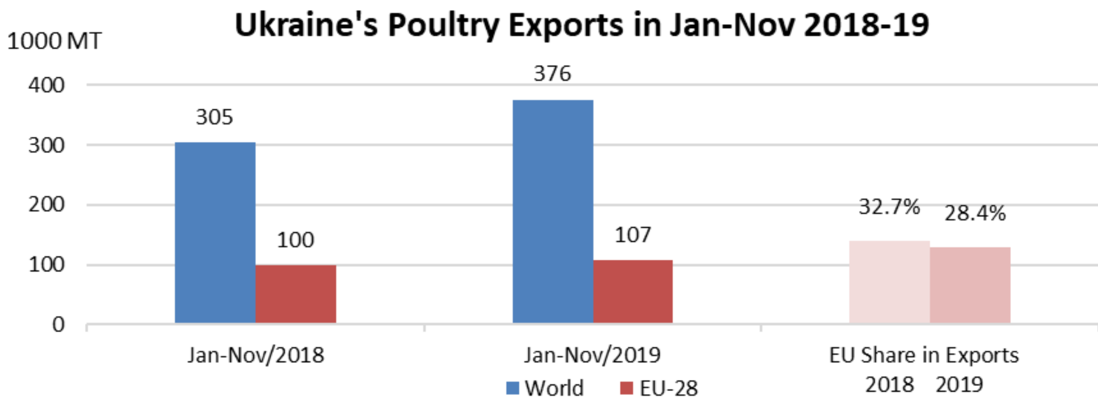
Only five Ukrainian facilities, belonging to four Ukrainian broiler producers, are approved for export to the EU. Access to the EU market was restored for one Ukrainian producer in 2019. The largest Ukrainian broiler producer, MHP, has both the largest approved facility and utilizes nearly the entire quota allocated to Ukraine under the DCFTA.

As mentioned earlier in this report, Ukrainian and EU authorities agreed to a new import TRQ for Ukrainian chicken parts. The European Parliament voted in support of this decision on November 26, 2019. Ukrainian Parliament mirrored approval on December 5, 2019. The maximum import TRQ was increased by 50 TMT to 70 TMT. The TRQ for whole birds will remain the same at 20 TMT. This agreement ends a four-year saga of over-TRQ chicken meat exports to the EU by Ukraine. This agreement also corrects Annex I-A to Title IV of the Association Agreement, under which selected chicken cuts classified as “other poultry cuts and offal” could have been exported to the EU with zero import duty and without quantitative restrictions. This loophole is now officially closed.



Source: Trade Data Monitor, FAS/Kyiv

The parties are expected to obey the new TRQ starting from 2020 and beyond, with combined (chicken parts and whole birds) exports under 90 TMT. However, the 2019 supplies are expected to exceed the new TRQ due to shipments made prior to conclusion of the new agreement. However, already in 2019, the EU's share of Ukraine's exports started to shrink.



Source: Trade Data Monitor, FAS/Kyiv

Ukraine's largest broiler producer - MHP is expected to increase its presence in the EU market through acquisition of a poultry facility located in the and/or through the construction of a new facility located in the EU. MHP purchased one of the largest Southeast European poultry producers - Perutnina Ptuj. This Slovenia-based producer also conducts business in Austria, Croatia, Serbia, Bosnia-Herzegovina, Romania and Northern Macedonia. The deal was closed on February 22, 2019. MHP also announced expansion plans in Serbia and Croatia and plans to remodel its chicken cutting plants in Slovakia and the Netherlands. These are the plants previously used to avoid the EU's TRQ restrictions. MHP's total investments into renovation and new construction are expected to be close to USD 100 million.

Due to the HPAI outbreak registered in central Ukraine, the EU banned all imports of Ukrainian chicken from January 23 to February 14, 2020. Although MHP announced a possible contraction in production, this short-term ban is unlikely to have a major impact on Ukraine's 2020 exports.

Other Export Markets

Ukraine has developed significant export markets in the Middle East, neighboring Former Soviet Union (FSU) countries and Northern Africa. Export to all three of these major destinations is expected to increase in 2020. Ukraine may start exports to South-East Asia in early summer-fall of 2020.

Markets in the Gulf countries will eventually replace the EU market as the major export destination for Ukrainian chicken meat. The region already became Ukraine's top destination by product volume in 2019. This growth took place despite some market access issues. One of the largest markets in the region, the Kingdom of Saudi Arabia's (KSA) , remained closed for Ukrainian producers from September 2019 to January of 2020. Ukraine's market access situation is expected to remain stable in 2020. The HPAI outbreak of 2020 had limited impact on Ukraine's exports to these markets.

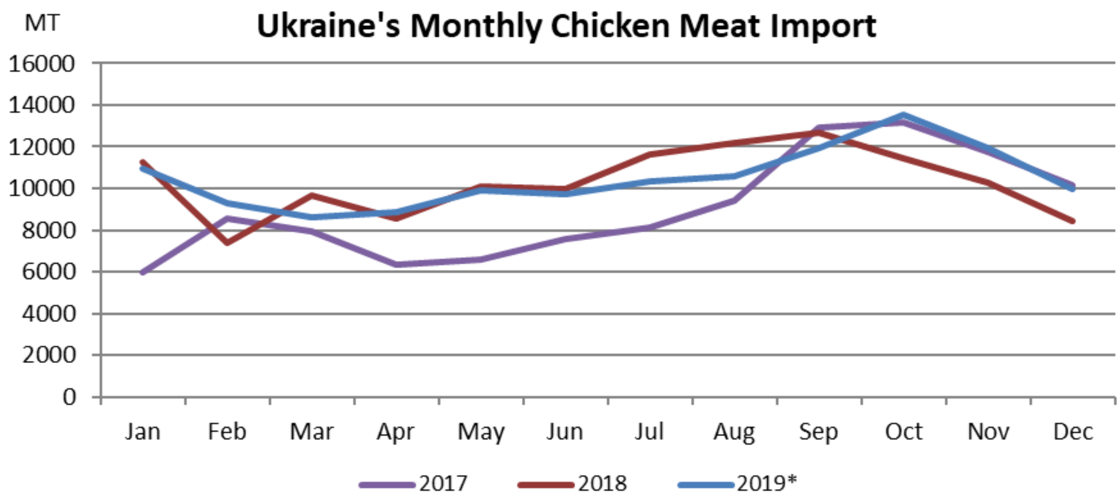
Growing disposable incomes and strong economies supported Ukraine's chicken exports to neighboring Moldova, Azerbaijan, Armenia and Kyrgyzstan. Demand is expected to remain strong in 2020.

North African markets are less attractive to Ukrainian producers due to generally lower prices, although their role remains significant. In late 2019, Ukrainian competent authorities negotiated poultry market access to Ethiopia.

Imports

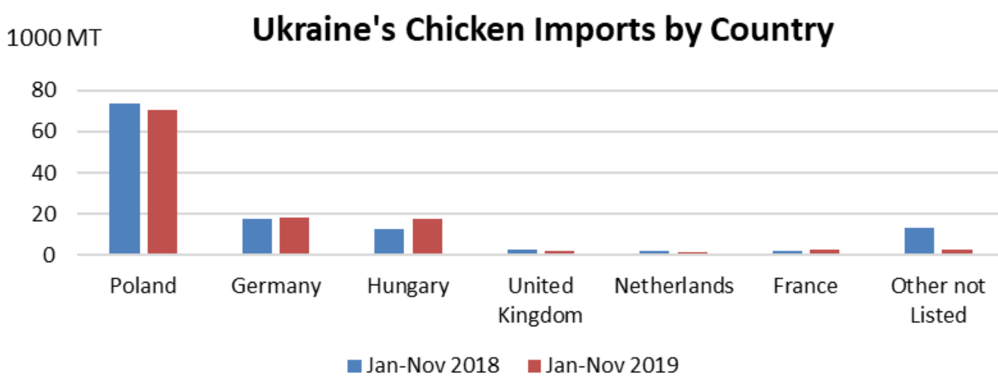
Ukrainian imports stabilized in 2019 and are expected to start contracting in 2020. Chicken meat imports played a vital role in Ukraine's surge in exports. Cheap chicken offal imports from the EU were substituted for exported chicken meat in the domestic market and paved the way for the EU import TRQ.

A growing interest among Ukrainian domestic chicken producers in the lower market segment in Ukraine is expected to result in an increase in domestic production of chicken offal. As a result, EU exports to Ukraine may start to decrease as early as 2020.



Source: Trade Data Monitor

Ukraine's imports are expected to remain in the lowest market segment with EU suppliers responsible for 99 percent of all sales.



Source: Trade Data Monitor

Section II Statistical Tables

Broiler Meat PSD Table*

Meat, Broiler Ukraine, MT	2018 Market Year Begin: Jan 2018		2019 Market Year Begin: Jan 2019		2020 Market Year Begin: Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Production	1235	1235	1335	1368	1450	1450
Total Imports	124	124	130	125	130	110
Total Supply	1359	1359	1465	1493	1580	1560
Total Exports	317	317	400	405	450	450
Human Consumption	1042	1042	1065	1088	1130	1110
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1042	1042	1065	1088	1130	1110
Total Use	1359	1359	1465	1493	1580	1560
Ending Stocks	0	0	0	0	0	0
Total Distribution	1359	1359	1465	1493	1580	1560

****Not Official USDA Data***

Exports of chicken paws to China and Hong Kong as well as chicken meat exports to Vietnam are excluded from the export numbers.

Attachments:

No Attachments