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Report Highlights:

In 2021 Ukraine's chicken meat production and exports are expected to decline for the first time in five years. The end of the major expansion cycle of Ukraine's biggest chicken producer - PrJSC MHP, growing feed cost leading to slimmer margins, the bankruptcy of the country's second largest chicken producer, and multiple High Pathogenic Avian Flu (HPAI) outbreaks are all contributing factors hindering Ukrainian poultry exports. Although, Ukraine's exports are expected to remain significant and diversified, similar to 2020, HPAI outbreaks will prevent it from fulfilling the EU 2021 import quota. In 2021, Ukraine will continue to import cheap offal and export premium cuts and whole birds. In order to meet the increasing demand from processors for cheap chicken meat for processing, Ukrainian imports are expected to grow to compensate for the declining production.

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

In 2021, Ukraine is expected to remain an exporter of expensive chicken part parts and an importer of cheap chicken. Ukraine's major export markets will remain in the Middle East, the EU, Central Asia and North Africa. The EU is expected to remain the major source of Ukrainian imports of poultry offal for further processing.

Despite strong production and export growth in 2020, the Ukrainian poultry industry is expected to experience a slowdown in 2021. Several factors have resulted in a contraction in production and a drop in exports:

- Throughout 2020, Ukraine has experienced multiple HPAI registered all across Ukraine. These led to either partial or complete closure of many export destinations, including the lucrative EU market. Ukraine's veterinary competent authority was able to ease only a few restrictions through regionalization recognition. HPAI cases have continued through February 2021 (the last was registered just prior to submission of this report) and the approaching wild bird migration season leaves little chance for an improvement in Ukraine's exports in early 2021.

- Poor management practices and the lack of a financial safety net resulted in a complete halt in production at Ukraine's second largest chicken meat producer – Complex Agromars. Once a powerful chicken producer, in late 2020 Agromars started contracting production and losing market share. The company completely stopped chicken meat production in December 2020. Large debts and continued attacks from creditors leave little chance for a resumption of production in 2021.

- Ukraine's feed proteins market followed the world market trend, exhibiting a major growth in feed costs in late 2020-early 2021. Although feed prices stopped climbing in January 2021, they still remain high and are expected to remain so until the next harvest. Since feed costs account for nearly 60 percent of the total cost of production, a boost in feed prices significantly affects the total cost of production. While simultaneously chicken meat prices also grew, this increase in chicken meat prices were insufficient to fully compensate for the increase in feed costs. The resulting slimmer production margins led to a decrease in production, especially among smaller, non-specialized chicken meat producers.

Despite production difficulties and HPAI outbreaks, Ukrainian chicken producers had a rather successful 2020 with the majority of problems/impacts starting to pile-up toward the end of the year. Ukraine's chicken meat exports grew in 2020 despite the closure of the EU market over a prolonged period. Ukrainian producers had no choice but to increase frozen meat stocks in the first half of 2020. However, stored meat found its way to the world market later in 2020. Ukraine significantly increased its presence in Kuwait, UAE, and Saudi Arabia. Former Soviet Union Central Asian countries became another quickly growing export market.

The spread of the COVID-19 disease had little influence on chicken meat consumption in Ukraine. Despite multiple country-wide and adaptive regional lock-downs, chicken remained on the menu of Ukrainians. A re-distribution of sales channels took place as hotels and restaurants decreased purchases. Increased demand from retail chains quickly compensated for this loss of sales to hotels and restaurants.

Post updated the PSD tables to reflect recent statistical data for 2020. However, this correction did not result in a trend change for 2020. The 2021 forecast was changed to reflect a bit of a drop in production and exports. Imports were reviewed upward to compensate for the lack of cheap chicken meat for further processing.

Production

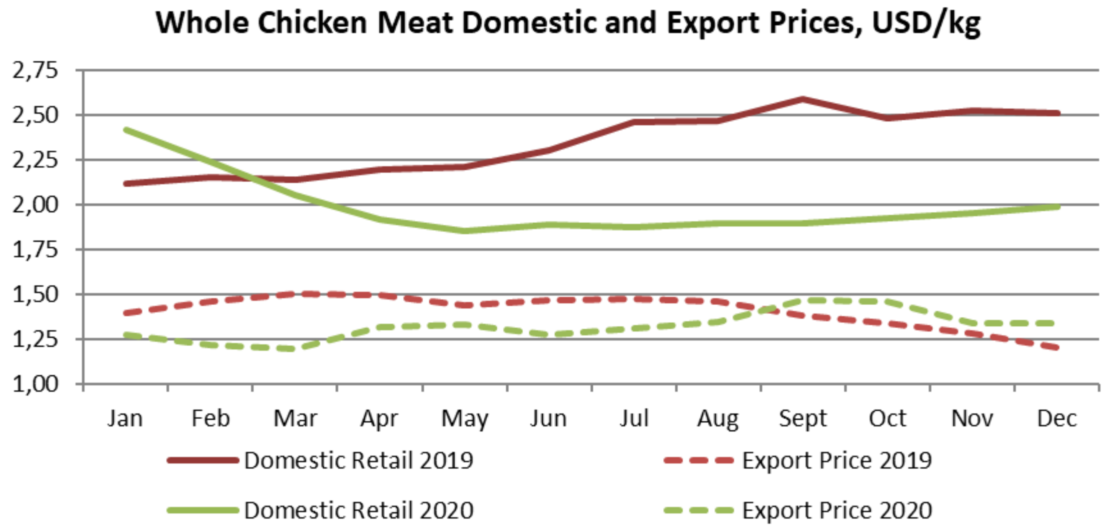
Industrial chicken production continues to be concentrated in a few, large, vertically integrated facilities. PrJSC MHP remained the largest Ukrainian chicken producer. After a major production expansion program with a total investment of more than USD 1 billion, MHP has maintained stable production. According to the company's investor report, MHP's production grew by 0.3 percent in 2020 (to 731 TMT). Unlike other Ukrainian producers, MHP remained focused on export markets with total exports exceeding 53 percent of all sales. MHP focused on production diversification with new production facilities acquired in Slovenia.

Production at Ukraine's second largest producer, Complex Agromars, stopped completely in December 2020. Industry experts see little chance of a resumption of production in 2021. Agromars was a poorly managed company that acquired significant debt and was under pressure from Ukrainian banks and input suppliers. Although Agromars did not publish production data, market operators noted a gradual decrease in production in recent months. The company predominately supplied the Ukrainian market and concentrated on the lowest market segment. When Agromars stopped production, it held close to seven percent market share. Other Ukrainian producers are likely to at least partially compensate for the production loss resulting from the closure of Agromars.

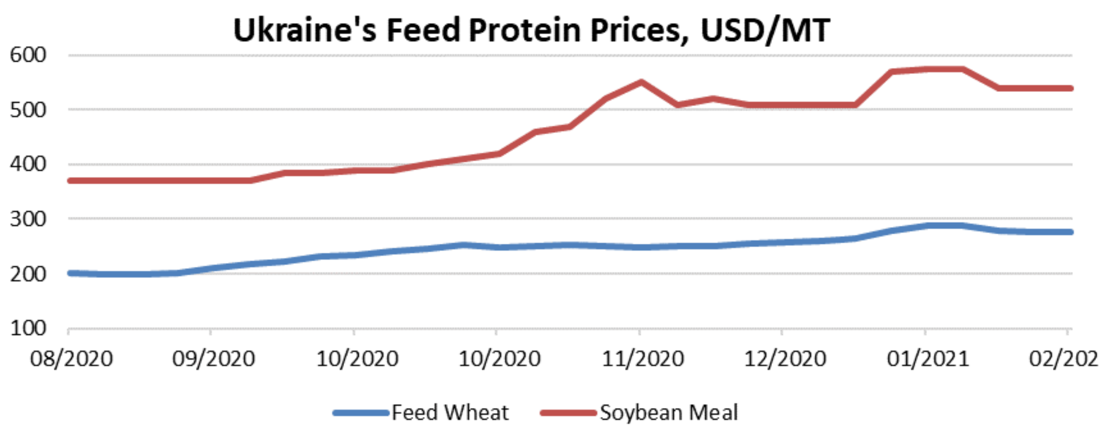
Ukraine's five midsized chicken producers (PK Dniprovskyi, Agrooven, Volodymyr-Volynsk Ptahofabryka, PK Hubyn and Ular) are vertically integrated which provides them with some protection from growing feed prices. The majority of them grow their own crops and produce their own feed. There is also a large number of small regional producers responsible for almost ten percent of the market share. There were scattered reports and indirect evidence that some of these small and less-efficient producers had to decrease their own chicken population awaiting for an increase in poultry prices. All these producers are privately held and do not release production data to the public.

Household production is very limited and stable. Rural families keep egg layers or dual-purpose breeds. The majority of chicken from household production is grown for in-family consumption and never enters official sales channels. Although included in the PSD production number, household chicken meat will be excluded from further price and trade analyses.

A significant reduction in the price of chicken during the first half of 2020 resulted in a drop in profitability for producers, particularly when combined with the increase in feed starting in September. Chicken meat prices increased in October -December 2020, helping a bit, but it was insignificant. Moreover, this slight increase in prices came too late to save Agromars or to sustain production by smaller producers. Export prices also grew insignificantly providing little support. Due to the major price/cost squeeze, an overall contraction in Ukrainian production contraction looks inevitable in 2021 despite PrJSC MHP's strong position.



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



Source: APK-Inform

Consumption

Chicken consumption changed marginally in 2020 and is not expected to change much in 2021. Overtime, chicken meat consumption grew to over half of all animal proteins in consumers' diets. Further consumption growth slowed down despite the continuing gradual growth of disposable incomes. This is largely due to competition from red meats and seafood.

COVID-19 had only a very limited impact on chicken meat consumption. Ukraine had two major country-wide lockdowns and multiple regional lockdowns to combat the disease spread. Although the Ukrainian economy suffered in 2020, the economic impact was not as significant as the impact in many Western economies. Ukrainian disposable incomes remained stable with salaries exhibiting some growth toward the 2020 yearend. However, as a result of COVID there was a major redistribution of sales channels for chicken meat sales. Many public establishments (hotels, restaurants, child-care facilities and schools) decreased consumption, while retail chains rushed in with an increase in demand that compensated for that loss. Consumption in some other public establishments (hospitals, army, prisons etc.) remained unchanged.

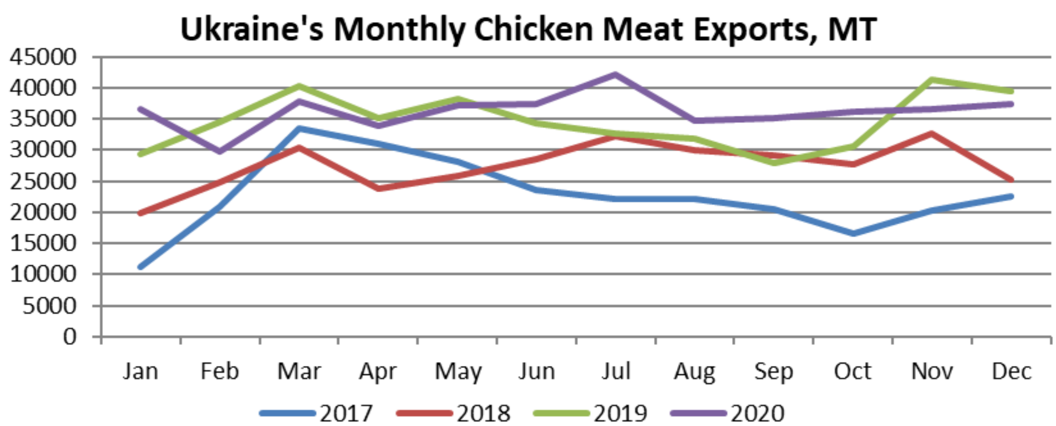
Trade

Reflecting a low-middle income country trade and consumption pattern, Ukraine remains an exporter of expensive chicken parts and whole birds to the world market and an importer of cheap poultry offal for further processing. In terms of both volume and, especially, price, Ukraine's exports significantly exceed their imports. Ukraine remained the seventh largest chicken meat exporter in the world in 2020.

Exports

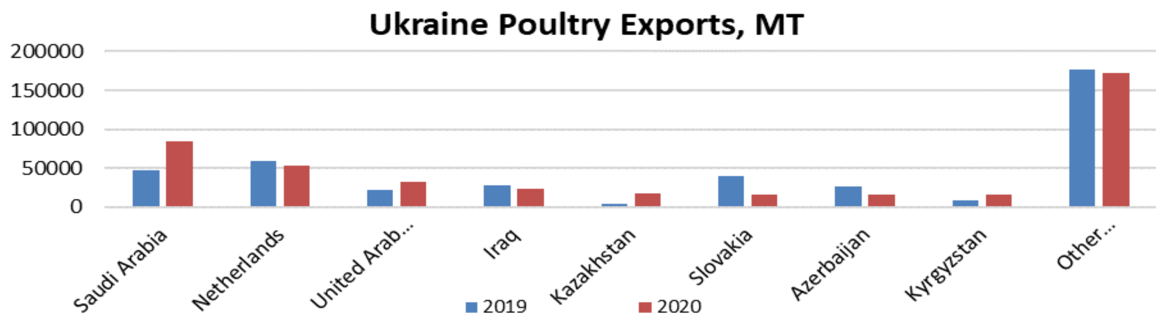
As expected, Ukraine's chicken meat exports reached another record high in 2020, despite market access problems in export markets. HPAI outbreaks had only a limited impact on Ukraine's total, global export numbers, although access to the lucrative EU market was jeopardized. Because the EU distributes the import TRQs on a quarterly basis, Ukraine was unable to completely fulfill them, significantly contracting exports to one of their largest export markets.

The Middle East became Ukraine's top export destination for chicken meat, both in terms of volume and value. The EU lost its role as Ukraine's major destination. Neighboring former Soviet Union states and Eurasian Economic Union members remained the third most important export region. Africa is the fourth. Exports of Ukrainian chicken meat to South-East Asia remain insignificant. Ukrainian competent authorities were unable to open the Chinese chicken meat market in 2020.



Source: Trade Data Monitor

Ukraine is likely to remine focused on its core markets in 2021. Production is expected to remain restricted, limiting any significant expansion in exports. Exports to the EU will remain short of allocated TRQs due to continued HPAI outbreaks and the lack of regionalization recognition from the EU veterinary authority.



Source: Trade Data Monitor

The EU Market

EU market access remains limited and unchanged: only five Ukrainian facilities (including the troubled LLC "Complex Agromars"), belonging to four Ukrainian poultry producers, are approved for export to the EU. However, the largest Ukrainian broiler producer, MHP, has both major facilities approved and utilizes nearly the entire quota allocated to Ukraine under the Deep and Comprehensive Free Trade Area Agreement (DCFTA) with the EU. EU's import TRQ will mature in 2021 and no further increase would be possible until there is a DCFTA review.

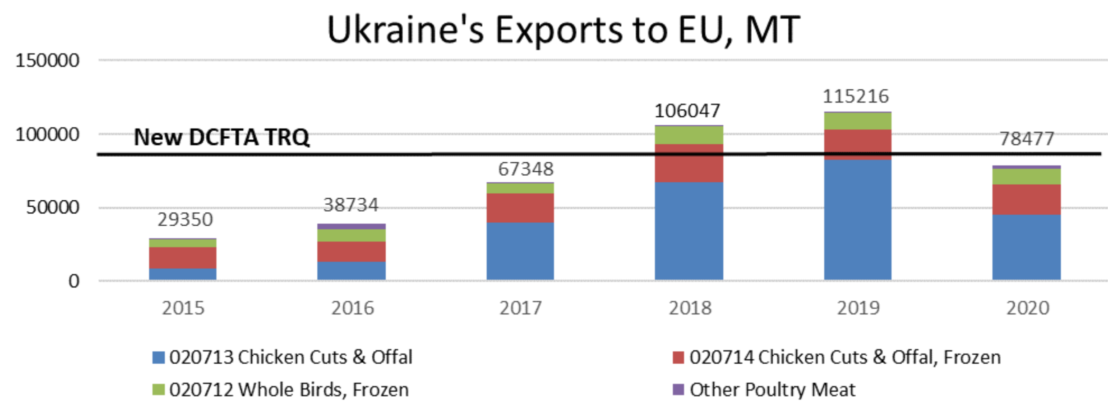
In 2019, EU and Ukrainian authorities agreed on new expanded import TRQs for Ukrainian chicken parts. The maximum import TRQ was increased by 50 TMT to 70 TMT. The TRQ for whole birds will remain the same at 20 TMT. In an attempt to maintain access to Great Britain's (GB) market after Brexit, Ukraine and GB negotiated "The Political, Free Trade and Strategic Partnership Agreement between the United Kingdom of Great Britain and Northern Ireland and Ukraine" (PFTSPA) which was signed in October, 2020 and went into effect on December 31, 2020.

Under the PFTSPA, Ukraine received an additional import quota: 9.5 thousand MT for chicken meat parts and 2.7 thousand MT for whole birds. Since no post-Brexit EU import TRQ reduction is announced, Ukraine's market access to EU27+GB will improve by the new TRQ size.

Product	**Tariff Classification**	**EU – DCFTA Import TRQ**	**UK – PFTSTA Import TRQ**
Poultry meat and poultry meat preparations*	0207 11 (30-90) 0207 12 (10-90) 0207 13 (10-20-30-50-60-70-99) 0207 14 (10-20-30-50-60-70-99) 0207 24 (10-90) 0207 25 (10-90) 0207 26 (10-20-30-50-60-70-80-99) 0207 27 (10-20-30-50-60-70-80-99) 0207 32 (15-19-51-59-90) 0207 33 (11-19-59-90) 0207 35 (11-15-21-23-25-31-41-51-53-61-63-71-79-99) 0207 36 (11-15-21-23-31-41-51-53-61-63-79-90) 0210 99 (39) 1602 31 (11-19-30-90) 1602 32 (11-19-30-90) 1602 39 (21)	50 000 tons/year expressed in net weight + 18 400 tons/year expressed in net weight with an incremental increase of 800 tons/year expressed in net weight in year 2020 and in year 2021 + 20 000 tons/year expressed in net weight (for CN code 0207 12 (10-90))	9 534 tons/year expressed in net weight + 2 724 tons/year expressed in net weight (for the CN code 0207 12 (10-90))

** Poultry meat expanded TRQ was established by additional agreement and empowered in August of 2019.*
Sources: PFTSPA and DCFTA

The new EU import TRQ structure, that ruled out over-quota imports of chicken meat cuts classified under HS 020713, was applied throughout all of 2020. Combined with continued HPAI outbreaks, these new import rules led to a 32 percent drop in Ukraine's exports to the EU market. This situation is not likely to change in 2021 due to continued outbreaks. Some TRQ volumes are likely to remain unclaimed.



Source: Trade Data Monitor, FAS/Kyiv

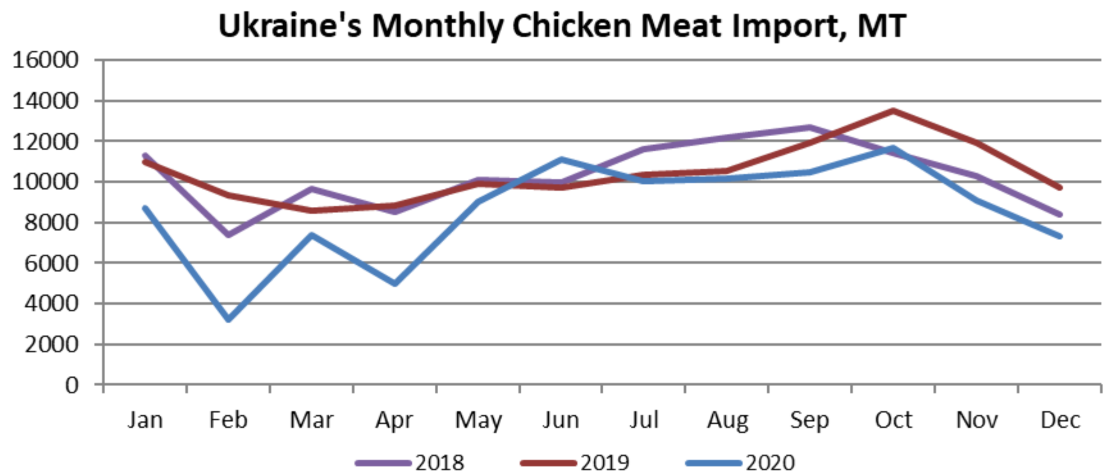
Other Export Markets

Ukraine has developed significant export markets in the Middle East, neighboring Former Soviet Union (FSU) countries and Northern Africa. Export to all three major destinations increased in 2020. This growth continued despite some market access issues associated with the spread of HPAI. It is also expected to remain strong in 2021. PrJSC MHP remained the main supplier to these markets. Ukrainian veterinary authorities managed to limit the negative impact of HPAI on trade in these regions.

North African markets are less attractive to Ukrainian producers due to generally lower prices, although their role continues to be significant. Egypt remains the major export destination with some markets in Gabon, Mauritania, Congo, and Ghana.

Imports

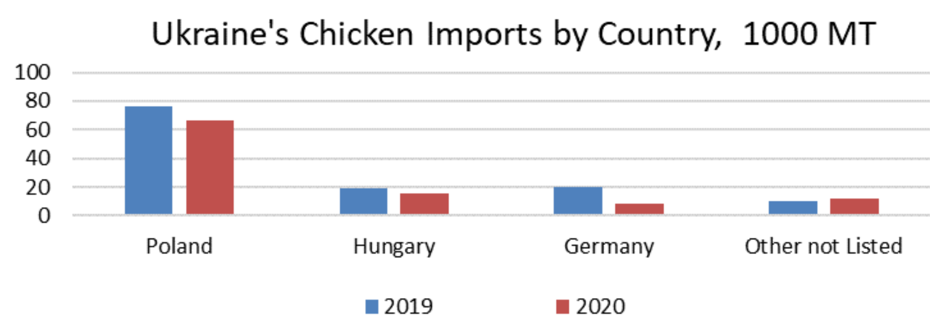
Chicken meat imports play an important role in Ukraine's export expansion: significant premium chicken parts and whole birds exports would not be possible without domestic substitution of expensive chicken cuts with cheap imported chicken meat offal.



Source: Trade Data Monitor

Ukraine’s export problems resulted in a growing interest of domestic chicken producers to the lower domestic market segment. An increased capacity for offal production resulted in some import contraction in 2020. However, this capacity increase still does not allow for Ukrainian production to cover all of Ukraine’s domestic needs for cheap poultry products. Ukraine is expected to increase imports of chicken offal in 2021 to compensate for a decrease in domestic production. Complex Agromars, which stopped production in December 2020 and the majority of small producers who are likely to decrease production due to smaller margins, occupied the lowest maker segment where imported chicken meat is positioned.

Ukraine’s import needs are covered almost exclusively by EU countries. No change is expected in 2021: Ukraine’s imports are expected to remain in the lowest market segment (offal only) with EU suppliers responsible for 99 percent of all sales.



Source: Trade Data Monitor

Statistical Tables

Broiler Meat PSD Table*

Meat, Broiler Ukraine, MT	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	USDA Official	New Post
Production	1335	1 383	11 410	1 423	1 450	1 375

Total Imports	125	125	110	103	100	135
Total Supply	1 480	1 508	1 520	1 526	1 550	1 510
Total Exports	406	406	420	428	430	410
Human Consumption	1 074	1 102	1 100	1 098	1 120	1 100
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1 074	1 102	1 100	1 098	1 120	1 100
Total Use	1 480	1 508	1 520	1 526	1 550	1 510
Ending Stocks	0	0	0	0	0	0
Total Distribution	1 480	1 508	1 520	1 526	1 550	1 510

****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