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Ukraine

Post: Kiev

Poultry and Products Update

Report Categories:
Poultry and Products

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Report Highlights:
Ukraine increased poultry production in 2013 and will continue to increase production and exports in 2014 significantly. The local market is saturated and any additional poultry output will be sold internationally. Ukraine did not receive a poultry import TRQ to the EU, so most exports will end up in the former Soviet Union, Middle East, and North Africa markets. Ukraine will import some inexpensive poultry in 2014, but imports will continue to decrease.

Executive Summary

A production and export surge is expected to continue in 2014 as the industry puts additional efforts into expansion. In 2014 Ukraine is likely to expand exports significantly as no room remains on the domestic market. The export forecast is increased to 190,000 metric tons, which is significant increase over the 2013 number.

In 2013 poultry production growth was resumed as the first production line of the biggest producer, Myronivsky Hliboproduct (MHP), became fully operational. Total industry growth is close to 13 percent and 2014 growth is expected to be similar to last year's. The recent grain crop was the largest in history with over 63 million tons, and a price reduction for major feed crops (corn, barley and feed wheat) will provide poultry producers in 2014 with an abundant and cheep supply of inputs. The availability of foreign markets will become the only limiting factor to growth.

PSD numbers for 2013 were reviewed, and correspond to official statistics. Official poultry production numbers have been released when this report was published while only preliminary export trade statistics for 2013 calendar year was available. Export forecasts for both 2013 and 2014 were increased to reflect growing production.

Production

Industrial poultry production in Ukraine continues to be concentrated in two major producing companies: MHP and Agromars. Both are vertically integrated holdings that grow their own crops, produce, slaughter, process, sell, and distribute chicken. Both producers are direct exporters. There are smaller regional producers, but they occupy insignificant market shares limited to regions where their production facilities are situated.

By the end of 2013 MHP launched the first 110,000 MT production line of its new facility in Ladyzhyn district. The company's report for the first three quarters of 2013 show an 18 percent production increase which led to 2.6 times greater frozen poultry export increase. A slight decrease in profit will not influence future expansion plans.

Consumption

Consumption of poultry products has stabilized at 820-830,000 tons per year. No significant change is expected in 2014 or in the near future. Disposable income growth is moderate and consumption pattern shifts to other proteins are unlikely. According to the World Bank classification Ukraine belongs to low-middle-income group of countries with rather low per capita income at $3500 (data for 2012). Low incomes promote poultry consumption as the cheapest meat product. It also influences distribution of different poultry products within poultry meat category.

Significant demand in the cheapest poultry used for further processing into sausages and other products resulted in unsatisfied demand for offal on the domestic market. Ukrainian poultry industry prefers poultry exports to more lucrative foreign markets leaving some market space for the cheapest imports. On the world market EU countries have a competitive advantage in this type of products taking a significant market share in 2013. The demand for cheap poultry in Ukraine in 2013 was a bit weaker than expected so the import estimate was decreased.

Consumption of imported whole birds and higher quality poultry parts is insignificant as domestic producers happened to be more competitive. Share of traditional suppliers such as U.S. and Brazil decreased significantly.

Trade

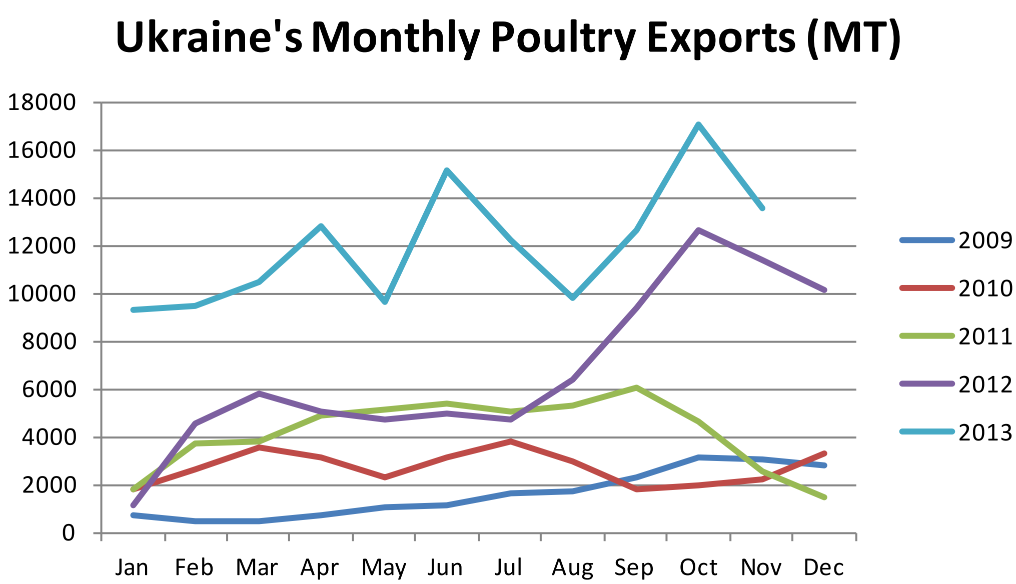
The biggest poultry trade uncertainty of the 2014 was resolved at the end of November of 2013. Ukraine did not sign an Association Agreement with the European Union which would have enabled a Deep and Comprehensive Free Trade Agreement (DCFTA), but the parties will now not exchange tariff rate quotas (TRQs) as planned. Under the DCFTA, Ukraine would have received a 36,000 MT quota in the EU, while EU producers would receive a reciprocal 18,000 MT TRQ in Ukraine. See table in the attachment for specific HS Codes distribution.

Ukrainian producers spent significant resources over last four years in preparation for the EU market exports. Two major industrial companies as well as Ukraine's competent authorities went through the multiple DG SANCO inspections in order to convince EU experts in safety of the product and to secure market access. The TRQs would also benefit the EU suppliers since trade in offal remains rather significant despite Ukraine's skyrocketing production.

In anticipation of the EU market Ukraine's largest poultry producer the MHP started test shipments of poultry into the EU. In October of 2013 the first truck load of whole birds was sold to Netherlands. It is unclear whether or not Ukrainian largest producers will be exporting poultry to the EU in 2014. The MHP stated that it can exercise its cost advantage and vertical integration benefits and export poultry into EU despite extremely high tariffs. Some observers stated that MHP was able to use import duty preferences given to EU importers and can use this supply method again in 2014 supplying only 4-5,000 MT of poultry. Its major competitor – Agromars Company stated that EU import duties are prohibitive and exports in absence of TRQ do not make business sense. FAS Kiev does not envisage any significant exports to EU in 2014. The PSD table was corrected to reflected increased production and export, but lack of EU market access did not influence the 2014 number.

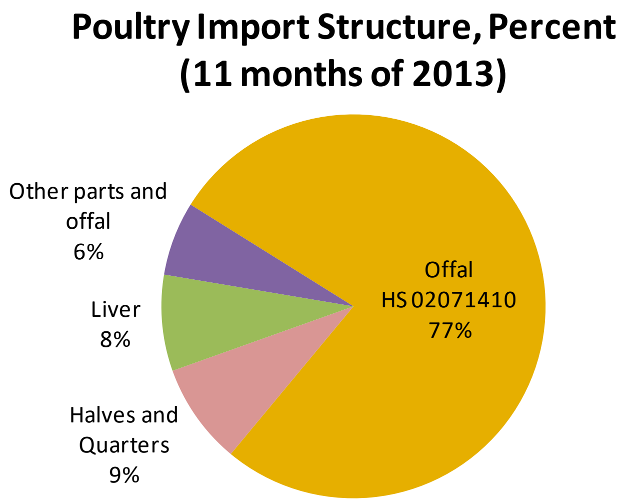
Source: State Statics Service of Ukraine

Ukraine will continue poultry supplies to Former Soviet Union (FSU) countries, and with particular attention to Middle East and African importers. Some poultry export increase to the Russian Federation is possible due to temporal reduction of trade barriers. This possible increase may compensate for lack of EU market for Ukrainian poultry products in 2014. Ukraine's poultry industry understands trade risks associated with heavy reliance on Russia's or FSU markets and put efforts toward market openings elsewhere. According to the Ukraine's Poultry Union (UPU) in 2014 Ukraine will open markets in Bangladesh and by 2017 the industry is going to export to over 50 countries worldwide.



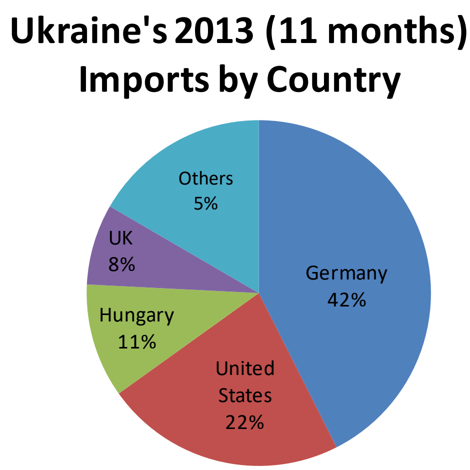
Source: State Statics Service of Ukraine

In 2014 Ukraine will continue to be an exporter and an importer of poultry products; however imports are expected to decrease significantly. Similarly to 2013 imports will consist mostly of the cheapest market segment: poultry offal for further processing. EU countries will have a competitive advantage in poultry offal and will keep their market share. Domestic producers may pay attention to this market segment if trade problems on foreign markets occur or if foreign markets of premium parts will be discovered. This will allow producers to increase domestic offal supplies.



Source: State Statics Service of Ukraine

Imports of U.S. poultry will remain small. In 2013 U.S. remained the sole supplier of poultry leg quarters to Ukraine, although market share of this subcategory was rather limited. Leg quarters occupied less than a quarter of the market due to heavy competition with chilled domestic product that dominated on retail market.



Source: State Statics Service of Ukraine

Section II Statistical Tables

Broiler Meat PSD Table*

Poultry, Meat, Broiler Ukraine	2012		2013		2014	
	Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		Market Year Begin: Jan 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Inventory (Reference)	0		0		0	
Slaughter (Reference)	0		0		0	
Beginning Stocks	0	0	0	0	0	0
Production	800	800	935	900	1,010	1,000
Total Imports	106	106	50	63	30	20
Total Supply	906	906	985	963	1,040	1,020
Total Exports	76	76	120	141	170	190
Human Consumption	830	830	865	822	870	830
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	830	830	865	822	870	830
Total Use	906	906	985	963	1,040	1,020
Ending Stocks	0	0	0	0	0	0
Total Distribution	906	906	985	963	1,040	1,020

****Not Official USDA Data***

Exports of chicken paws (Ukrainian HS 0207149900) to China, Vietnam and Hong Kong are excluded from the export numbers.

Ukraine's Poultry Imports* January - November, Tons

Partner Country	Unit	Quantity			% Share			% Change
		2011	2012	2013	2011	2012	2013	2013/2012
World	T	45965	99891	58920	100.00	100.00	100.00	- 41.02
Germany	T	10308	25173	25084	22.42	25.20	42.57	- 0.35
United States	T	4292	35881	13265	9.34	35.92	22.51	- 63.03
Hungary	T	2165	10547	6312	4.71	10.56	10.71	- 40.15
United Kingdom	T	8379	8988	4477	18.23	9.00	7.60	- 50.19
Netherlands	T	8163	6799	2880	17.76	6.81	4.89	- 57.64
Poland	T	5889	6870	2498	12.81	6.88	4.24	- 63.65
Brazil	T	54	1043	1501	0.12	1.04	2.55	43.94
France	T	1559	829	1328	3.39	0.83	2.25	60.13
Belgium	T	3579	1992	820	7.79	1.99	1.39	- 58.86
Italy	T	819	805	592	1.78	0.81	1.00	- 26.47
Ireland	T	0	0	80	0.00	0.00	0.14	0.00
Russia	T	0	84	43	0.00	0.08	0.07	- 49.36
Denmark	T	460	861	34	1.00	0.86	0.06	- 96.06
Latvia	T	0	19	5	0.00	0.02	0.01	- 71.99
Slovenia	T	0	0	2	0.00	0.00	0.00	0.00
Kazakhstan	T	240	0	0	0.52	0.00	0.00	0.00
Belarus	T	55	0	0	0.12	0.00	0.00	0.00
Czech Republic	T	6	0	0	0.01	0.00	0.00	0.00

Source of Data: State Customs Committee of Ukraine

**Poultry is defined as HS 020711, 020712, 020713, 020714 and 16023*

Ukraine's Poultry Exports, January-November, Tons

Partner Country	Unit	Quantity			% Share			% Change
		2011	2012	2013	2011	2012	2013	2013/2012
World	T	42684	65801	128148	100.00	100.00	100.00	94.75
Russia	T	5307	26623	37699	10.97	37.68	28.58	41.60
Iraq	T	513	885	19294	1.06	1.25	14.63	2080.11
Kazakhstan	T	21516	18759	18850	44.47	26.55	14.29	0.49
Moldova	T	6450	6713	9568	13.33	9.50	7.25	42.53
Uzbekistan	T	20	2848	9258	0.04	4.03	7.02	225.07
Georgia	T	1554	1698	5904	3.21	2.40	4.48	247.70
Others		7324	8275	27575	17.16	12.58	21.52	233.23

**Poultry is defined as HS 020711, 020712, 020713, 020714 and 160232; exports of chicken paws (Ukrainian HS 0207149900) to China, Vietnam and Hong Kong are excluded*
Source: Global Trade Atlas

Proposed Import Ukraine's and EU's TRQs for Poultry and Poultry Products that WILL NOT take place in 2014

Product	HS-Code	EU's TRQ		Ukraine's TRQ	
		Current EU's TRQ	DCFTA TRQ, for export of Ukraine's Poultry to EU, MT in CWE	Current Ukraine's TRQ	DCFTA TRQ, for export of EU's Poultry to Ukraine MT in CWE
Poultry: Whole Birds and Poultry Cuts	0207.11.(30-90) 0207.12.(10-90) 0207.13.(10-20-30-50-60-99) 0207.14.(10-20-30-50-60-99) 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)	None	16 000 MT/year with linear increase in 5 years to 20 000 MT/year	None	8,000 with linear increase in 5 years to 10 000 MT/year
Poultry: Whole Birds	0207.12.(10-90)	None	20,000	None	10,000
Poultry Total:	N/A	None	40,000	None	20,000

Source: Annex I-A to Title IV of the Association Agreement
The quantities shall enter on a first-come, first-served basis