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Report Name: Seafood Imports Rebound Despite the War

Country: Ukraine

Post: Kyiv

Report Category: Fishery Products

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Report Highlights:

Ukraine's total imports of fish and seafood rebounded by 28 percent in 2023 after a major war-impacted drop in 2022. The demand for seafood remains strong, although it has shifted from more expensive species to cheaper ones. Strong imports are taking place despite a 20 percent population drop, a major disposable income decline, and new and more expensive trade routes. Imports from the United States in 2023 increased by 32 percent, reaching USD 77 million and returning to the pre-war per capita level. Due to the war, domestic catch remains limited, as fishing in the Black Sea and inland water sources is restricted. Continuing gradual recovery in the income level in 2024 is expected to facilitate further import increases.

Report Summary

Ukraine's total imports of fish and seafood rebounded by 28 percent in 2023 after a major war-impacted drop in 2022. In 2023, the United States remained Ukraine's third largest seafood supplier after Norway and Iceland, with almost USD 77 million in seafood exports to Ukraine – a 32 percent increase in value over 2022. (Note: USDA's Bulk, Intermediate & Consumer Oriented (BICO) product definition for fish and seafood will be used here and throughout the report.) Although exceeding the 10-year historical average, the 2023 exports are USD 5 million short of the 2020 record. Similar to other large exporters, the majority of U.S. exports are relatively less expensive seafood products, with white fish dominating the exports. However, imports of select higher-value seafood remained substantial. Imports from the rest of the world also rebounded in 2023 but to a lesser extent due to generally higher prices and, on average, more expensive fish species. Ukraine increased seafood imports in 2023 predominately because of two major factors: disposable income stabilization and importers' adjustments to new logistical challenges.

In 2023, exports of white fish (mainly traditional hake and Alaskan pollock) constituted over half of all U.S. exports. Trade in higher-value wild-caught salmon and other premium species remained depressed. However, Ukraine's traditional imports of high-value salmon roe remained remarkably strong (although also short of the 2020 record) despite the major trade flow disturbances in late 2023. Attractive salmon roe prices and recovering disposable incomes played a role. Decreased 2024 U.S. salmon prices promise some trade rebound in 2024 while demand for other species also remains strong. However, 2024 exports are not expected to recover to the 2020 level due to a smaller consumer base. But they are likely to be above the 2023 level.

Wartime Trade and Logistics Challenges

After the start of the full-scale Russian aggression in February 2022, Ukrainian fish importers and processors experienced a major shock. The industry stopped new seafood purchases for over a month and concentrated on deliveries of shipments in transit and domestic sales of already imported products. Before the war started, Ukraine's Black Sea ports were closed for some time, so all shipments were routed through Baltic countries (predominately Latvian ports), Germany, and Poland. After the war started, the EU border became the only available trade route for Ukrainian importers. All imports became officially subject to EU transit rules (neighboring Moldova is landlocked and borders only with Romania, another EU country). This transit restriction remains in place in 2024. Although the industry reported no problems, imports from a small number of non-EU-registered facilities that have taken place in the past are no longer possible.

Immediately after the war started, importers faced a variety of problems, some of which were not under their control. These included: significant truck traffic increases, which resulted in substantial delivery delays; many western border crossing points that needed to be equipped for seafood transit and required veterinary control infrastructure on both sides; some western insurers that refused to insure Ukrainian imports, refrigerated containers, and trucks, requiring significant cash deposits; many European truck companies declined to send their trucks to Ukraine; and also, many truck drivers refused to drive to Ukraine. Ukrainian seafood importers involved in seafood processing and re-export also complained about the unavailability of many inputs and export delays.

Similar to the rest of the economy, seafood importers suffered from curfews, which limited working hours and truck movement, conscription to the army (which impacted qualified staff availability), and retail industry problems resulting in payment delays. By 2024, the industry had learned how to deal with those problems or mitigate the risks.

Russian attacks on civilian infrastructure remain a significant threat to seafood imports and trade. Although a small number of cold storage facilities and warehouses were damaged or destroyed, attacks on the Ukrainian electric grid intensified in the fall of 2023. This resulted in multiple blackouts, forcing the use of electric generators that often run for long periods of time, substantially increasing the storage costs. New attacks against power generating stations in 2024 keep those risks high.

Border Crossing Problems of Late 2023 – Early 2024

In order to support Ukraine after the war started, the EU liberalized trade with Ukraine by suspending all tariff-rate quotas and removing import duties. A new trade regime was implemented on June 4, 2022 (initially valid for one calendar year). Later, the regime was extended. The 2024-25 regime (yet to be finalized by all EU institutions) remains liberalized, although its draft form as of the time of this report writing envisages multiple potential restrictive measures for sensitive agricultural products in cases when their exports to the EU exceed certain limits. These restrictions, however, do not include seafood or processed seafood products. Trade liberalization facilitated some U.S. seafood processing for further re-export to the EU market.

This trade liberalization inspired protests against the access of Ukrainian agricultural products and services to EU markets. On November 6, 2023, representatives of one of six Polish truckers' trade unions blocked several checkpoints on the Polish-Ukrainian border. The initial blockade included three of four major crossing points. Later, on November 23, the last crossing point suitable for trucks over 7.5 metric tons of weight was also blocked. Later, some Polish farmers joined the blockade. In different periods of time, Polish protestors were joined by Slovakian, Romanian, and Hungarian counterparts. However, road blockades were deemed illegal in some countries, and only limited traffic delays were reported. These farmer groups protested against the high excise tax on fuel, the EU's green deal, low agricultural commodity prices, and competition from Ukrainian exports (when applicable). All protests resulted in slow traffic and/or blocked border crossings. Several Polish-Ukrainian border crossing points remained blocked when this report was drafted in April of 2024.

Importers of U.S. seafood suffered a significant loss because of these border blockades. Many trucks carrying imported seafood were stuck in long queues for weeks and even months. According to industry sources, importers had to pay trucking companies EUR 250 to EUR 300 per each day of the delay. This payment included fuel costs, trucker salaries, and truck rent fees but did not include foregone profits and broken contract costs.

The 2023 salmon season opened in early November, and only a few scattered shipments reached their Ukrainian customers in time. Because of the competitive salmon price, imports into Ukraine were expected to increase in 2023-24 but it has not yet occurred. Salmon roe is another important product, and a traditional New Years treat for many Ukrainian families, with this product not

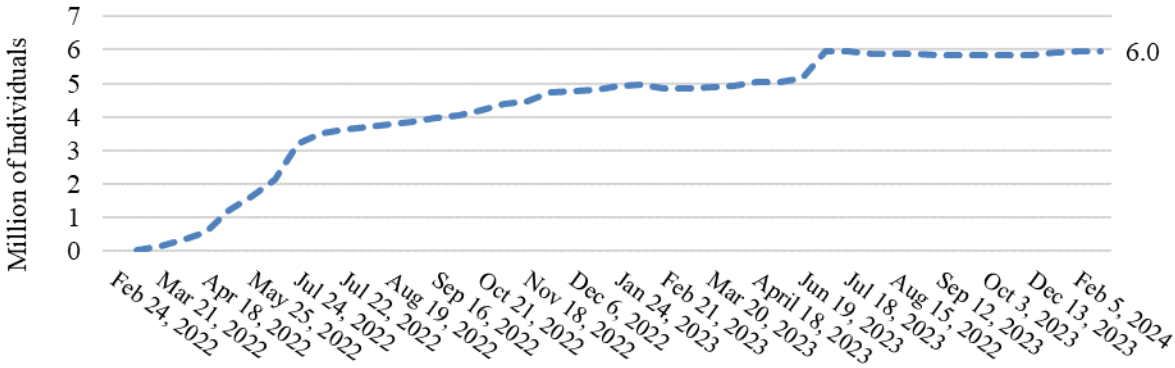
consumed much in other seasons. Ukrainian importers experienced significant problems and incurred financial losses in an attempt to get roe shipments to Ukraine in time. The United States exports between $4 million to $11 million in salmon roe to Ukraine each year. In most cases, Ukrainian processing facilities need a couple of weeks to put roe into the cans prior to retail distribution (which also requires some time). A lot of fish roe was late for the 2023 Christmas season, although importers rerouted some trucks via Slovakian and Hungarian crossing points. Imports of salmon roe in 2023 still turned out to be substantial but could have been better without the blocked borders.

Border crossing blockades remain a notable trade risk in 2024. Although importers are well aware of it and opt for alternative routes, those routes result in higher transshipment costs and generally lower imports.

Consumption

The number of consumers in Ukraine decreased significantly due to war-related reasons but stabilized in late 2023 as the outflow leveled. Ukraine's pre-war statistics declared a population of 41.13 million (which included occupied and uncontrolled areas in the east and did not include occupied Crimea). According to the United Nations Refugee Agency (UNHCR), 6.0 million people moved to Europe, and 0.4 million settled in other countries. The number of Ukrainians who live in occupied territories and those who moved or were expelled to Russia is not known. Some of those Ukrainian citizens willingly accepted or were forced to accept Russian passports and do not qualify for refugee status by international institutions. The total number of individuals who left the country or live in uncontrolled territory is estimated to be between 9.5 and 10.5 million, close to 25 percent of the pre-war population (including all occupied areas and territories from 2014 to 2022). If pre-war uncontrolled areas of eastern Ukraine are excluded, the population (and corresponding consumption) drop is reported to be close to 20 percent.

Figure 1. Number of Refugees from Ukraine Recorded Across Europe



Source: UN Refugee Agency (https://data.unhcr.org/)

A significant number of Ukrainians had to leave occupied territories or unsafe territories adjacent to the front line. As of the end of March 2024, the number of internally displaced persons had reached 3.7 million. Many internally displaced persons lost their jobs and relied on social assistance programs. Ukraine stopped publishing disposable income data for war-related reasons. However, a

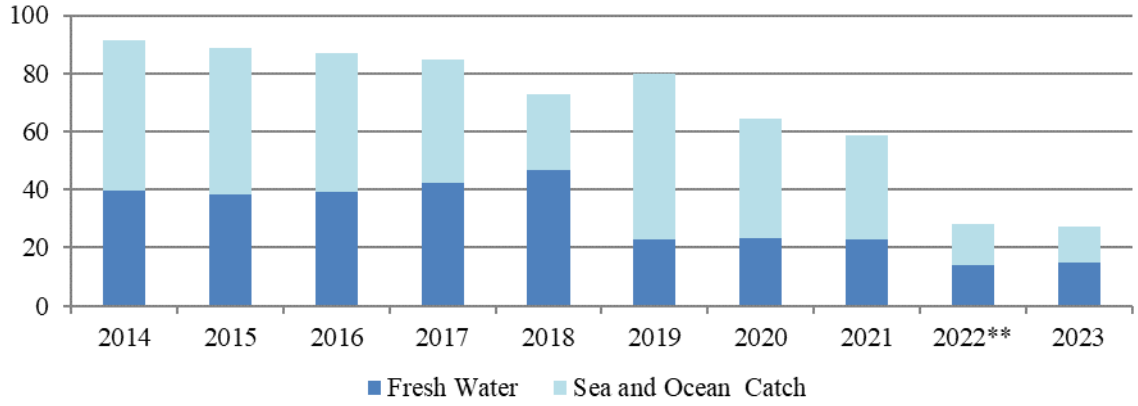
GDP decrease of 29.1 percent in 2022 and an anticipated 4.8 rebound in 2023 (data by the World Bank) may provide an idea of the disposable income level change.

Seafood Market Performance and Trends

Domestic Catch

Ukraine's domestic catch suffered a big drop in 2014 when Ukraine lost access to many Black and Azov Seas fishing areas due to the annexation of the Crimea Peninsula by the Russian Federation. After the full-scale invasion started in February of 2022, Ukraine lost access to the remaining areas of the Azov Sea and many additional Black Sea areas. Also, Ukrainian vessels fishing in the open sea and territorial waters of other countries were unable to return to their home ports.

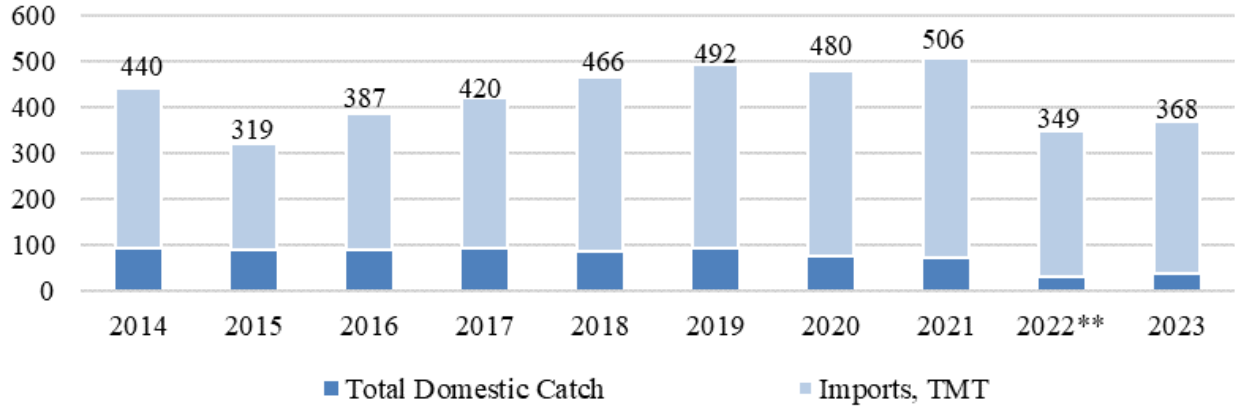
Figure 2. Ukraine's Catch Structure by Water Source,* Thousand Metric Tons



* - *Without Crimea*
** - *FAS Kyiv Estimate for 2022 as no official data available*
Source: State Statistics Service of Ukraine

Ukraine's military administrations and border guards imposed additional war-related restrictions on freshwater catch. In 2022, the catch and boat navigation were limited in all southern and one northern region, cutting the catch by almost 40 percent. These restrictions resulted in the domestic catch share in total consumption dropping from 16 to 11 percent. The role of imported fish and seafood in satisfying domestic demand became even more prevalent.

Figure 3. Ukraine's Seafood Supplies, Thousand Metric Tons



Source: State Statistics Service of Ukraine, Trade Data Monitor
*** - FAS Kyiv Estimate for 2022 as no official catch data available*

Import Trends

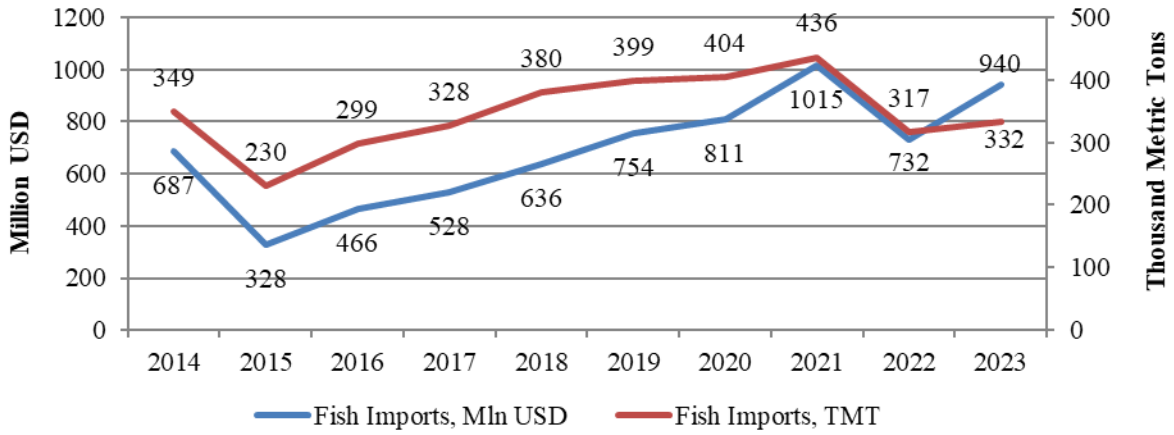
After a major drop in 2022, seafood imports recovered strongly in 2023 and are expected to continue to grow in 2024. Domestic catch remained insignificant and shrunk further during the war, as mentioned. Imports became the dominant source of fish and seafood for the shrinking Ukrainian population. The top three seafood suppliers did not change from pre-war times, with the United States having seven percent of the market – and ranked third. The United States is likely to keep its position in 2024 as one of the major suppliers of mass-market seafood, with some premium segments shrinking during the war.

Table 1. Ukraine's Fish and Seafood Imports in 2021-23

	Partner Country	2021		2022		2023	
		Mln. USD	Quantity, TMT	Mln. USD	Quantity, TMT	Mln. USD	Quantity, TMT
	_World	1015	436	732	317	940	332
1	Norway	312	92	223	62	300	71
2	Iceland	120	63	76	46	115	61
3	United States	75	29	58	21	77	23
4	China	47	14	24	6	42	9
5	Estonia	23	40	25	36	30	31
6	Latvia	18	20	31	23	28	22
7	Spain	41	21	27	12	28	11
8	United Kingdom	42	23	24	12	27	12
9	Canada	50	25	33	15	25	9
10	Ecuador	25	9	15	4	25	5
	Other not Listed	263	102	195	80	243	78

Source: Trade Data Monitor

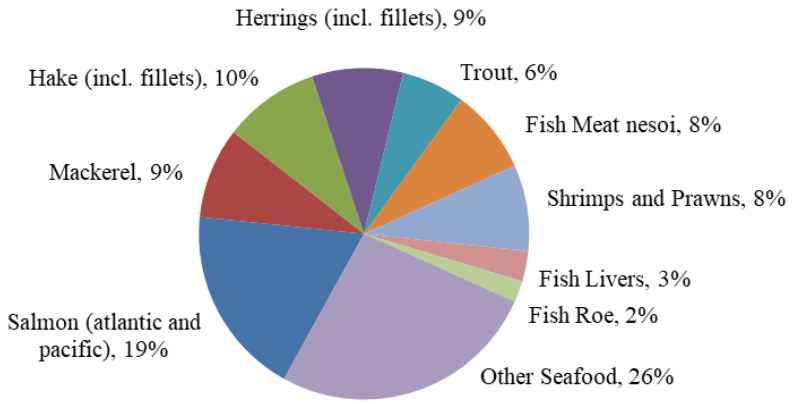
Figure 4. Ukraine's Seafood Imports



Source: Trade Data Monitor

Ukraine's seafood imports are very diversified, and the market is competitive. The market has matured and Ukraine imports a number of different seafood products, offering new opportunities to U.S. exporters despite the ongoing conflict. Three Baltic counties (Lithuania, Latvia, and Estonia) supply processed traditional fish species (salted and smoked herring, farmed salmon, and mackerel) as well as traditional canned products (mostly sprats and sardines). The United States and Canada replaced traditionally consumed seafood products (primarily hake and pollock) that were previously shipped from the Soviet Far East and later imported from Russia. Heavy reliance on herring, mackerel, and hake is now balanced by new trends for salmon, trout, salmon roe, and shrimp. Imports of cheaper farmed Atlantic salmon (predominantly from Norway) grew notable in recent decades, with U.S. wild-caught salmon occupying the top market segment.

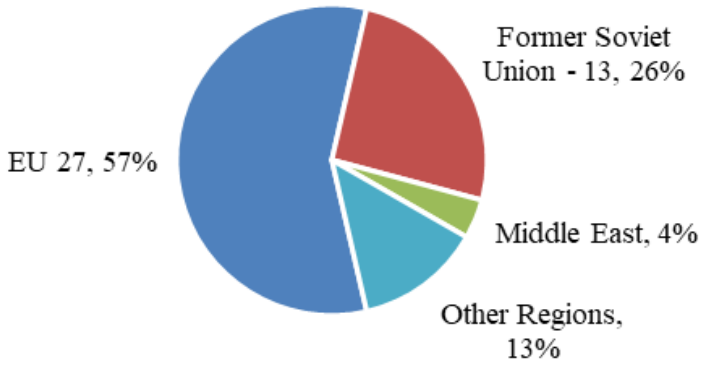
Figure 5. Ukraine's Seafood Imports in 2023, USD 940 Million



Source: Trade Data Monitor

The war created additional sales opportunities to Ukrainian armed forces and law enforcement agencies. However, state procurement contracts are very price-sensitive, bureaucratized, and usually limited to hake, pollock, and canned seafood products for MREs. In recent years, a new niche for U.S. exporters emerged in the Ukrainian fish processing industry, which produces for export to third countries. However, logistical problems and border blockades in 2023-24 undermined exports of perishable fish products. Ukraine's seafood exports (mostly processed imported products) contracted by almost half from pre-war years. Ukrainian processors rely on exports to the EU and the former Soviet Union countries. Exports to the latter are complicated due to war-related logistics restrictions.

Figure 6. Ukraine's Seafood Exports in 2023, USD 32.4 million



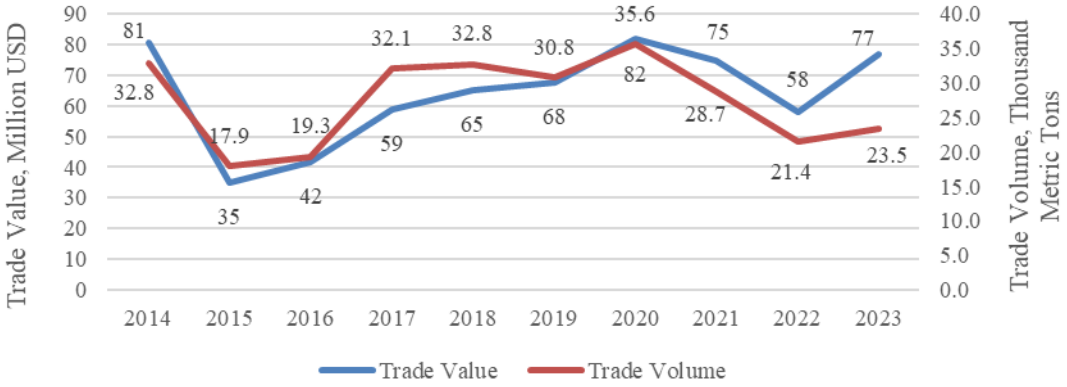
Source: Trade Data Monitor

U.S. Seafood Exports to Ukraine

U.S. fish and seafood access to the Ukrainian market remains largely unrestricted. A bilateral import certificate endorsable by NOAA allows for free access of most open sea-caught species. Although Ukraine adopted new generic certificate forms and promotes them in international trade, the old bilaterally negotiated certificate remains in place. No market access restrictions are expected in 2024.

After a war-caused trade drop in 2022, Ukraine's imports of U.S. seafood (primarily lower-value segments) rose strongly in 2023. The import volume growth from 21,400 metric tons in 2022 to 23,500 thousand metric tons in 2023 equaled a return to the pre-war per capita consumption level. This return occurred despite several logistical challenges and average per unit import price growth. The 2024 preliminary numbers show that Ukraine may return to consumption growth, provided there are stable (or lower) seafood prices.

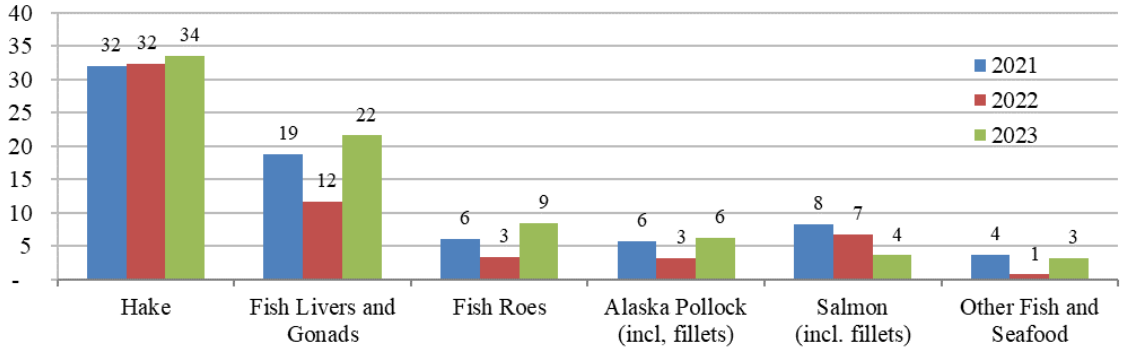
Figure 7. Fish and Seafood Imports from the United States



Source: Trade Data Monitor

Imports of more expensive wild-caught salmon, scallops, and crab meat contracted in 2022 and remained limited in 2023. Many Ukrainian high-end restaurants responsible for the majority of high-value seafood demand decreased sales substantially or closed. However, relatively expensive salmon roe sales perceived by consumers as a "seasonal treat" rebounded strongly in 2023 despite decreased incomes and border blockades that peaked during the roe consumption season. Over half of salmon roe imports are consumed around the Christmas season.

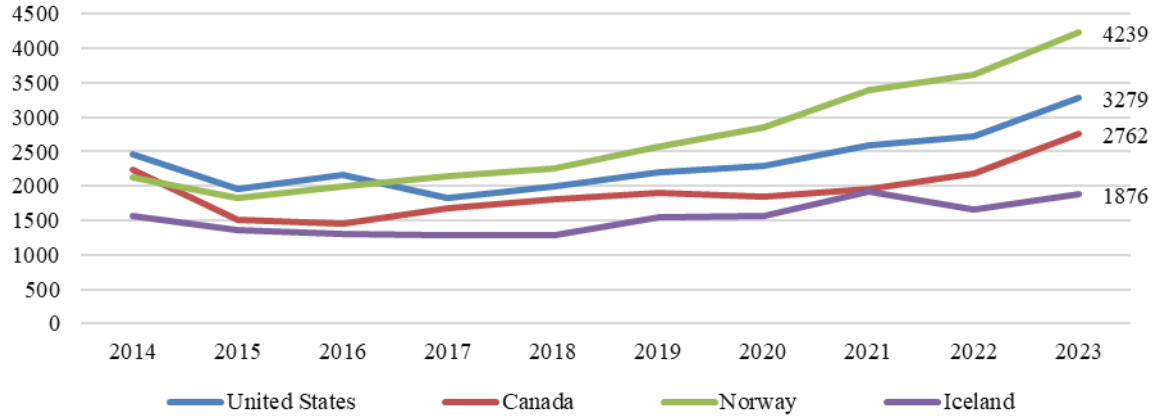
Figure 8. U.S. Seafood Exports to Ukraine, Million USD



Source: Trade Data Monitor

After the war started, Ukraine's consumption became even more price-sensitive and very elastic (i.e. quantity demand for the product changed drastically when its price increases or decreases). Ukrainian importers often look for the best deal, comparing hake prices to its closest substitute – Alaskan pollock. This price-cautious behavior suggests a better import perspective for Pacific salmon in 2024. Low salmon prices in the 2023-24 season (according to National Fisherman and many other public sources) are likely to reverse the downward trend of 2021-23. More sophisticated consumers and remaining restaurateurs are likely to return to quality U.S. products despite the war hardships.

Figure 9. U.S. and the Major Competitors Seafood Exports to Ukraine Unit Value, USD/MT



Source: Trade Data Monitor

The United States managed to retain a rather high per-unit export value in 2023 (only exporting countries known to supply predominantly raw seafood are compared in Figure 9). Norway leads the race because of the high share of Atlantic farmed salmon in its export structure. The U.S. position among the top three largest exporters combined with high per-unit value illustrates the U.S. market niche as one of the best quality/price ratio exporters. After the war ends, U.S. exporters may continue to concentrate on higher value-added products when disposable incomes recover.

The only new niche market available to Ukrainian importers in 2024 is increased procurement by the Ukrainian army. Importers may compete for those contracts with lower value (likely hake or pollock) fish species. U.S. seafood may return to "processing for further re-export" markets after the war ends, logistics problems disappear, and the processing market rebounds.

Attachments:

No Attachments.