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Voluntary - Public

Date: 4/7/2017

GAIN Report Number: UP1703

Ukraine

Post: Kiev

Fish Imports About to Rebound

Report Categories:

Fishery Products

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Report Highlights:

In 2016, exports of U.S. seafood and fish into Ukraine rebounded after two years of contraction. Decreased fish imports and consumption were caused by currency devaluation and disposable income decreases resulting from economic crisis in 2013 to 2015. Further stabilization of the political and economic situation in the country will likely facilitate import growth in 2017. In the near future Ukraine is likely to increase imports of traditional products – hake, pollock and salmon roe. Imports of high value added products will remain limited pending further income growth. Ukraine could restore its position as one of the top ten U.S. seafood export destinations by 2020.

Executive Summary

The United States is the third largest supplier of seafood to Ukraine. Over the last decade U.S. exporters were able to develop a rather significant and sustainable market for U.S. fish and seafood. Market stability and sales were shaken in 2013, when political turmoil led to economic turbulence, currency depreciation and rapid seafood export decrease. In 2013, U.S. seafood sales to Ukraine peaked at USD 105 million, collapsing to USD 32.5 million in 2015.

In 2016, Ukraine's seafood market stabilized as the government got inflation and major macroeconomic indicators under control. Stabilized disposable incomes had a positive impact on U.S. seafood exports, which grew by 16 percent. However, the 2016 market value of USD 37.8 million remained small in comparison to previous years. Further economic stabilization observed in 2017 suggests further seafood export growth as the major traditional products, like hake and salmon roe, rebound. U.S. exports are likely to grow by 15 percent in 2017, following income increase.

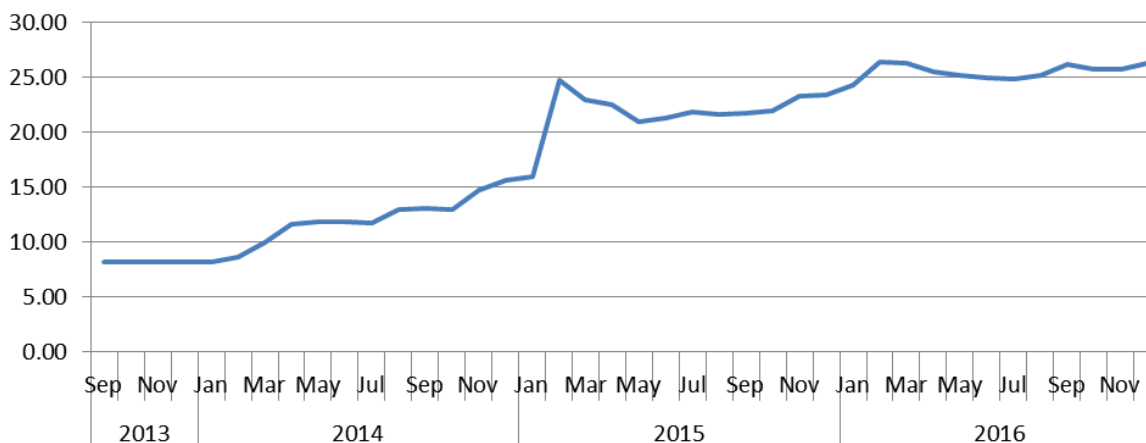
Exports of premium seafood (such as black cod, crabs and live lobsters) are expected to continue as a small but affluent segment of Ukrainian society tends to maintain consumption habits despite some income drop. Although small, sales of these products remained stable or even grew in 2013-2015.

Sales recovery for the middle segment of seafood products will be the slowest. Sluggish disposable income growth gives little hope to significant sales in the next 2-3 years. However, U.S. suppliers are exploring new niche markets and sales will likely increase when correctly placed products meet demand. Although significant U.S. market share of hake was taken by Canadian competitors in 2016, Ukrainian importers switched to Alaskan Pollock, discovering new suppliers for Ukrainian consumers.

Macroeconomic Developments

Currency fluctuations have major impacts on imports of fish and seafood products in turbulent economic environments. Ukraine is a price-taker on the world seafood market, with the exception of salmon roe where its share is significant. Disposable income decrease had a major impact on seafood imports and seafood importers. The enormous currency devaluation observed in late 2014 – early 2015 resulted in sudden consumption drop. Many importers suffered massive losses as their obligations to foreign suppliers were fixed in hard currency, while their sales were fixed in a quickly devaluating local currency. Some companies defaulted on their obligations to foreign suppliers, which interrupted the supply chain throughout 2015. In an attempt to save the balance of payments Ukraine introduced an additional [10 percent import duty surcharge](#) that depressed imports even more. It was canceled in 2016.

UAH/USD Exchange Rate



Source: National Bank of Ukraine data on Interbank Commodity Exchange, FAS/Kyiv

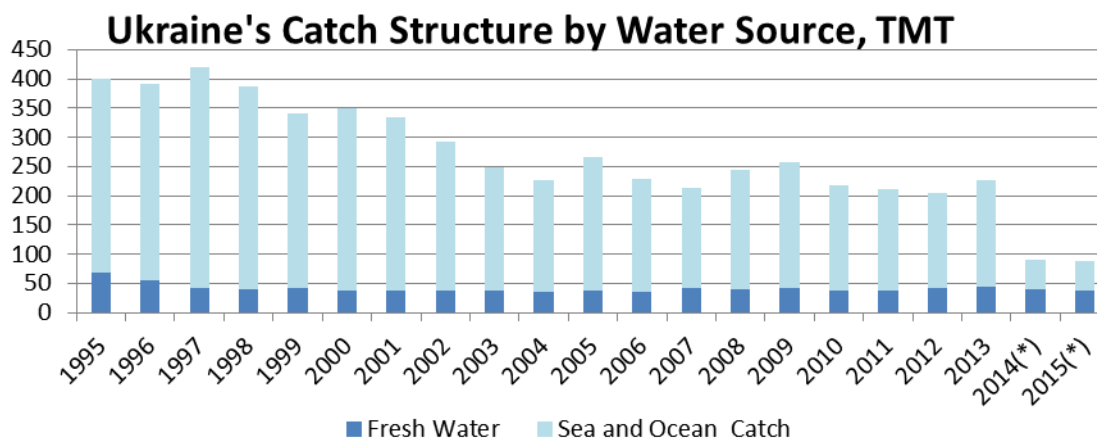
In 2016, domestic currency stabilized as the National Bank of Ukraine imposed prudent controls on the banking and financial sectors. Increased import costs resulting from unpredictable currency devaluation curtailed. The most significant factor depressing imports is low disposable incomes of the domestic population. However, during 2016, real wages grew by 6.5 percent with some positive outlook for 2017.

Domestic Catch

Ukrainian consumers traditionally relied on domestic freshwater fish for household consumption, while processors relied on the Black and Azov Sea catch for the processing industry. Throughout the 1990s, significant fish supplies were derived from other countries' waters, but as Ukraine's fishing fleet aged, supply decreased by 20 times to 15.8 TMT in 2015. Remaining Ukrainian fishermen saw little profit on the domestic market for higher-value products, preferring to sell their catch overseas. Low disposable incomes were another factor that kept Ukrainian catch out of country.

In the 2000s, the catch became limited mainly to the Black and Azov Seas, with the majority of Ukraine's fleet based in Crimean ports. As Ukraine lost control over the Crimean Peninsula in 2014, the country's catch and supplies dropped dramatically.

FAS/Kyiv contacts in the industry suggest that the real domestic catch can be significantly higher due to underreporting. This would include catch of freshwater pike, Black Sea mullet and flounder.

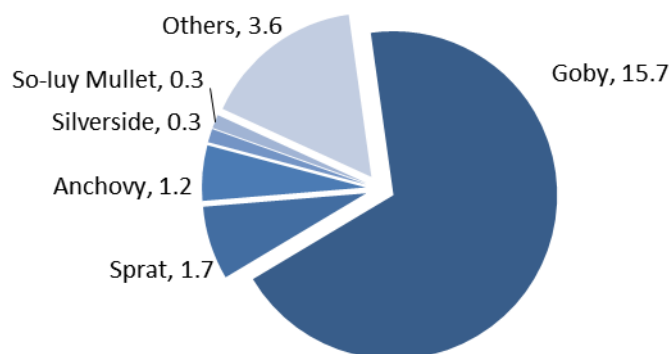


* - Without Crimea

Source: State Statistics Service of Ukraine

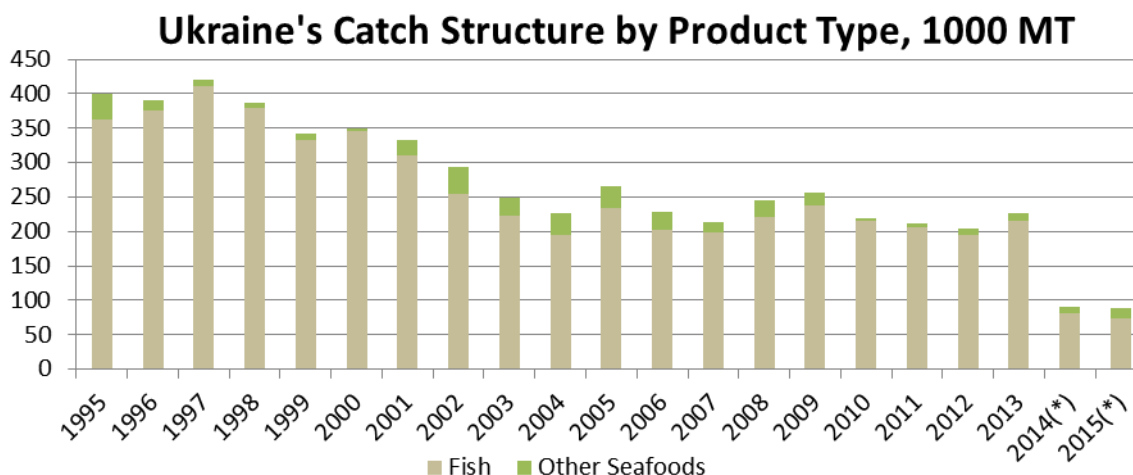
The catch species structure also changed in the early 2000s, with a re-orientation of catch to exclusive economic zone. Due to natural causes it also got limited to very small number of commercial fish species. Most of catch consist of small fish that would have limited market elsewhere.

Ukraine Sea and Ocean Catch by Species, TMT



Source: State Statistics Service of Ukraine

Goby and different anchovy species constituted three quarters of the catch. All these fish species are sold for further processing. Traditionally it is canned, smoked, salted in brine, or smoke-dried fish. Significant share of sprats (and related small herring species) are sold to canneries where it is smoked and then canned with sunflower oil. Gobies are often sold dried, smoked, or canned in tomato sauce or oil. All these species occupy the lowest market segment whether they are smoked, dried or canned. Dried and smoked fish is predominantly consumed as beer-snacks and does not constitute a meal for a family.



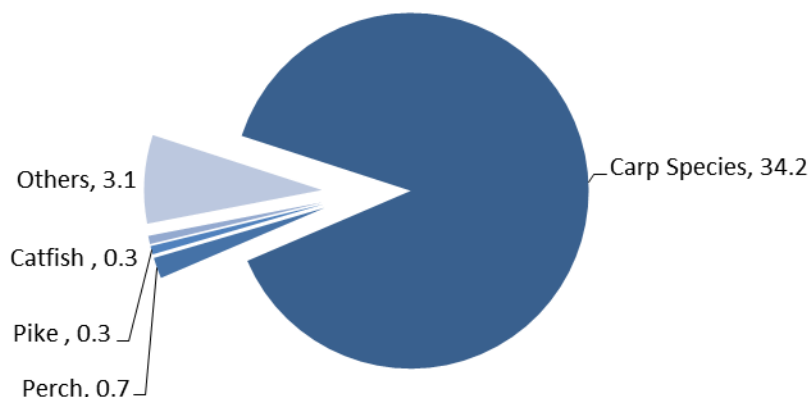
Source: State Statistics Service of Ukraine

Catch of other seafood is limited mainly to small crustaceans on the bottom of the oceanic food chain – krill. It is commercially fished in Antarctic waters and canned on-board for human consumption. The only 3 other countries where this product is widely used for food purposes are Japan, Philippines and Russia. Krill is sold in small cans and placed in the upper market segment.

Ukrainian freshwater fish supplies consist mostly of different carp species. These species are not demanding and can grow in small ponds and waterweed covered lakes with limited oxygen availability. Industrial production is conducted in multiple ponds, lakes, hydroelectric station dam ponds and dikes on larger rivers. Carp grow quickly and reach market weight and size when they are 2-3 year old. Since it is one of the cheapest fish, many producers utilize low-cost production technology relying on naturally-grown feeds with limited feeding at later growing stages or no feeding at all. Industrial production is seasonal, with the majority of fish sold in the fall and early winter.

According to the Association of Ukrainian Fishermen, only 250 000 hectares of Ukrainian fresh water surface is suitable for aquaculture. Out of this number only 150,000 hectares are in use. Low-intensive methods yield up to 400 kg of fish per hectare, although this number can potentially be as high as 3 MT. All Government of Ukraine attempts to boost domestic aquaculture production have been largely insignificant. Freshwater crawfish is commonly caught in lakes and rivers. It is usually sold chilled or alive. It is never processed, but instead consumed boiled as a traditional snack food.

Ukraine Fresh Water Catch by Species, 1000 MT



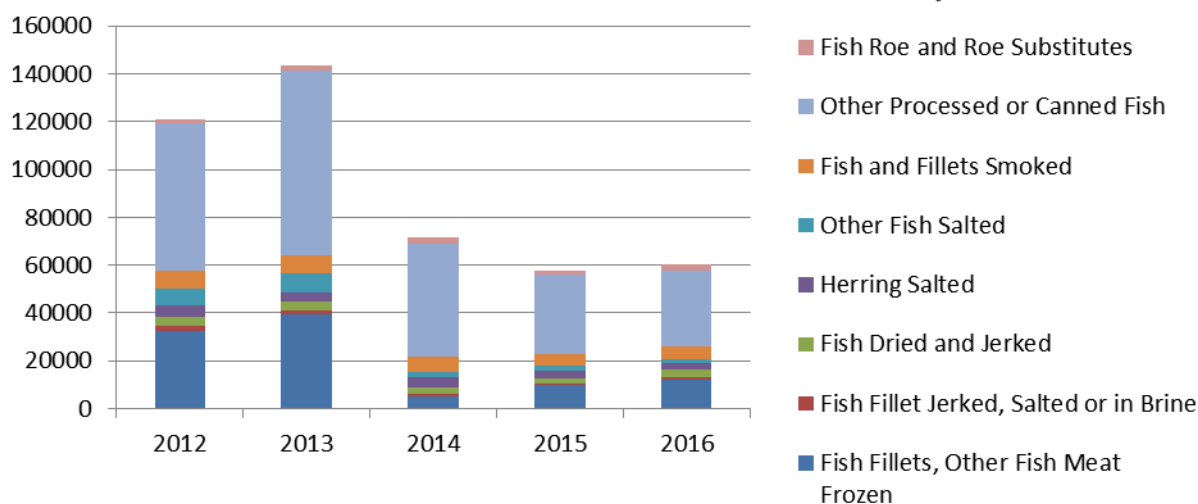
Source: State Statistics Service of Ukraine

Production of pike and perch is not industrial. Perch is a rather expensive species that is sold domestically or exported. Among others, Ukrainian perch fillet is available in U.S. market in fish restaurants where it is frequently mistaken for more expensive North American walleye.

Processing

Ukraine possesses a rather large processing industry. A significant portion of domestically procured and imported fish is processed into cans (mostly sprats, goby, sardines, mackerel and sardinella). Almost all imported herring is sold salted, either as whole fish or filleted and cut into pieces. A significant share of herring is sold in plastic cans with added oil and spices.

Processed Fish Production in Ukraine, MT



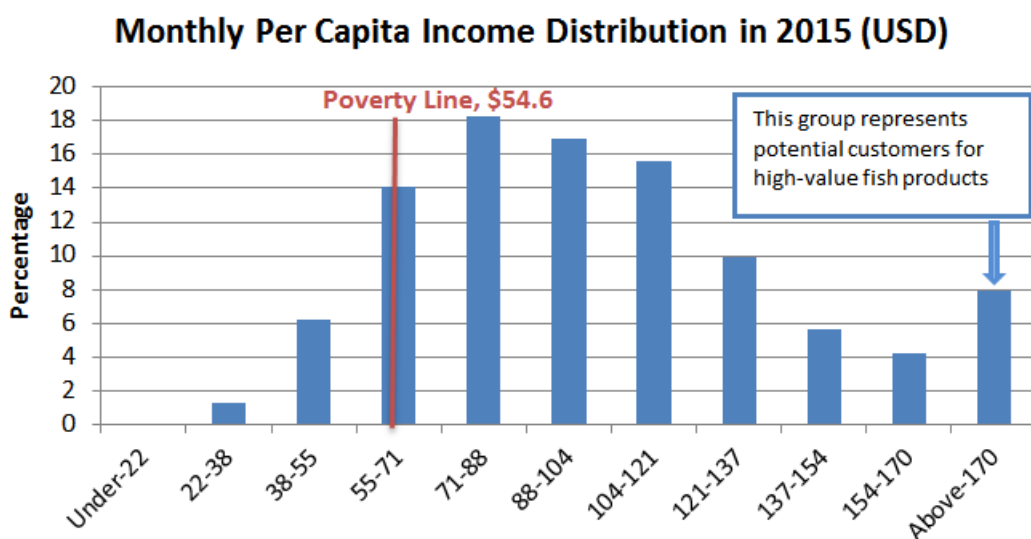
Source: State Statistics Service of Ukraine

In Ukrainian culture, processed fish products are rarely used as a part of the main meal. Dried, salted, smoked and canned fish is used as a snack food, for small sandwiches or as food in circumstances when other food products are unavailable (for campers, hunters, fishermen, and as military rations). At times canned fish and surimi are used as salad ingredients.

Consumption

Insufficient domestic production and lower fish quality from fresh water sources and from the Black and Azov Seas require significant imports to satisfy domestic demand. In 2015, the World Bank put Ukraine into the lower-middle income group of countries with a per capita GDP of USD 7,940, calculated by PPP (Purchasing Power Parity). This relatively low per capita income limits demand for fish and seafood products significantly. Historically, Ukraine consumed cheaper fish species, some of which constituted traditional commercial fishing by the Soviet Union fleet in Northern Atlantic, Northern, and Far-Eastern Seas. Cheap herring and hake constituted a significant share of Ukrainian fish supplies. Other fish including different cod and herring family species are familiar to consumers, but remained too expensive over the economically turbulent 1990's and 2000's. The premium market segment was limited to far-east salmon and salmon roe.

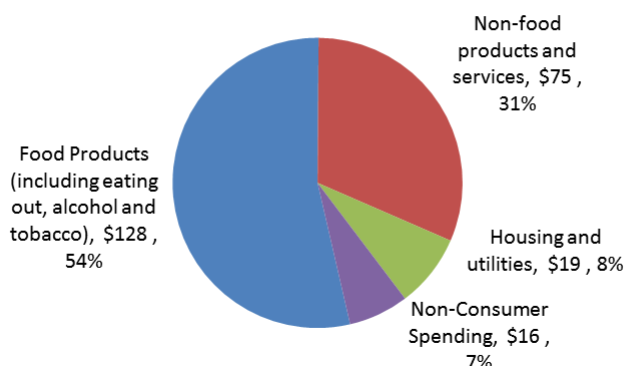
Disposable income decreases in 2013-15 led to a general shift of the middle-class segment into the low-income segment with almost 8 percent of consumers below the official poverty line (established at USD 1.80 per day). That low income level barely covers basic food and utility expenses. Although detailed income distribution data for 2016 is not yet published, overall real disposable incomes in 2016 grew only by 6.5 percent.



Source: State Statistics Service of Ukraine, FAS/Kyiv calculations

The majority of consumers survive on \$3-\$5 a day. Although Ukraine possesses a rather large unofficial economy, its positive influence on incomes (with the exception of the top-paid segment) is ranging from 40 to 50 percent of official income. Low incomes lead to a situation where over 50 percent of household spending is spent on food.

Monthly Household Spending in 2015, USD

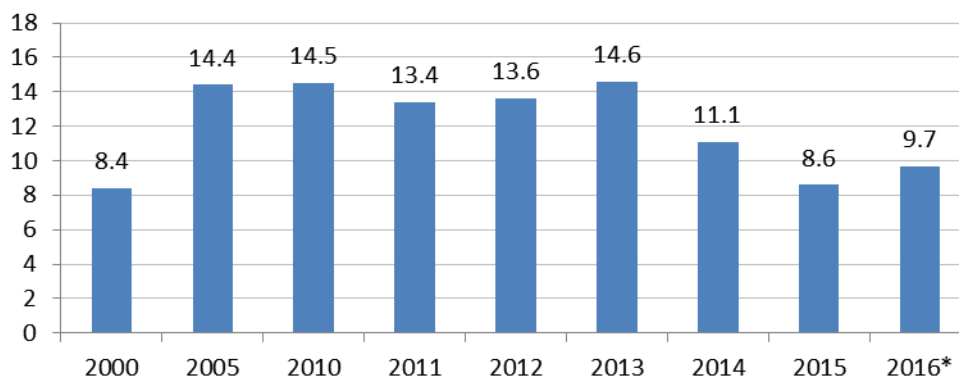


Source: State Statistics Service of Ukraine, FAS/Kyiv calculations
Average household size in Ukraine is 2.2 persons

The decrease in disposable income of recent years will be an impediment for imports of U.S. seafood, with the impact felt into 2017 and beyond. Because Ukrainians continue to spend over half of their income on food, disposable income is the overwhelming determinant of demand for food imports, especially higher-priced U.S. products.

Consumption habits are slow to change. After more than two decades of independence, Ukrainian consumers have been exposed to many new fish and seafood species. The variety of fish and seafood at supermarkets is impressive, but only a few species have made it to the mainstream diet due to low disposable incomes.

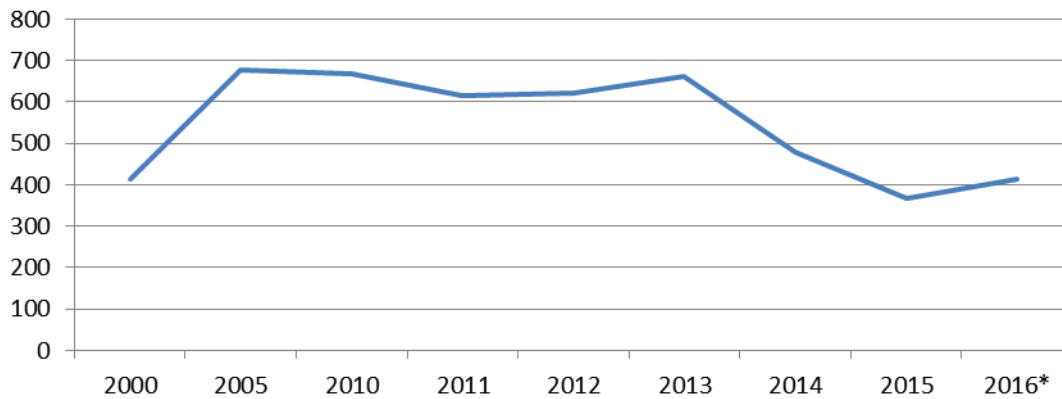
Per Capita Consumption of Fish and Seafood Products in Ukraine, kg



Source: State Statistics Service of Ukraine

*Forecast

Consumption of Fish and Fishery Products in Ukraine, 1000 MT



Source: State Statistics Service of Ukraine

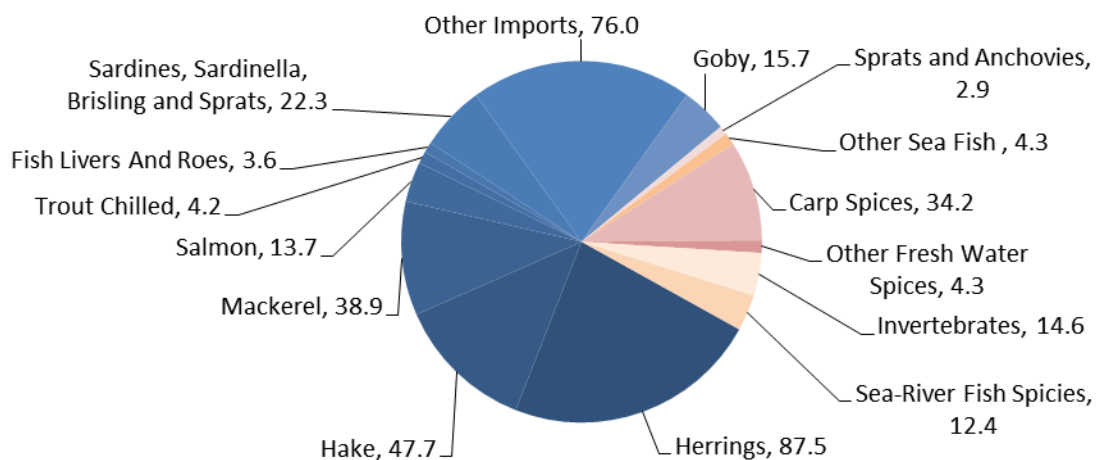
*Based on preliminary data

Fish consumption in Ukraine is rather seasonal. Sales start to pick up in early December, peak close to New Year holidays and decline toward early March. Sales volume during summer months is twice as low as during the winter. In Ukraine, fish consumption is counter-cyclical to meat consumption.

Consumer awareness of fish and seafood health benefits is rather limited. Some people are aware of Omega-3 fatty acids, while many are not. There are a lot of misconceptions and preconceived notions about fish. That is especially so for aquaculture raised fish. Some people are afraid of high mercury content in open-sea caught fish, as well as concerns about antibiotics and meat colorants in farm-raised product.

During the 1990's, supplies from Russia became irregular as new supply chains were established on market-base principles. Traditional fish species started to be delivered from new destinations. Inexpensive traditional seafood continued to be in demand.

Ukraine's Seafood Consumption in 2016*, TMT



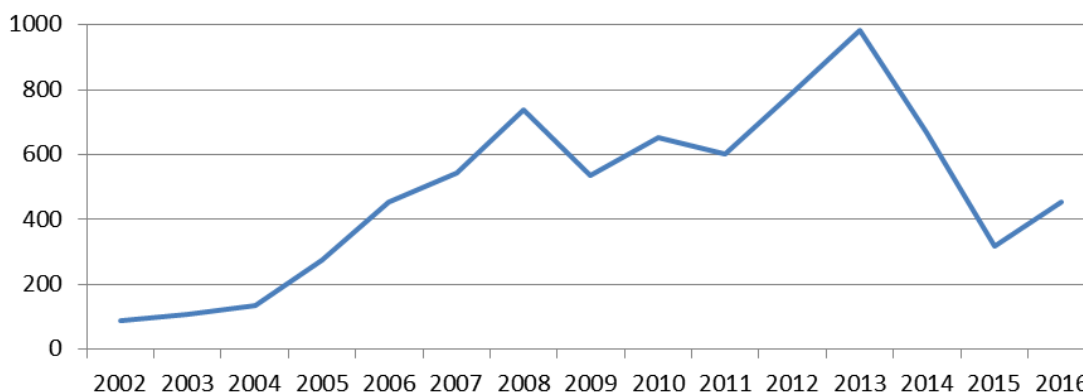
Source: State Statistics Service of Ukraine, FAS calculations
 * Domestic catch 2016 preliminary data was used

Ukrainian consumers heavily depend on imported fish products (in blue shades) as domestic catch covers less than a quarter of demand (in pink shades). Inexpensive species such as herrings, hake, mackerel and fresh water carp occupy over half of consumption, reflecting the demand for cheap products.

Imports

Fish imports remained a function of disposable incomes for a number of years. Economic crises in 2009 and 2014 had profound impacts on consumption levels. During market declines, Ukrainians also switched to cheaper fish species. In recent years, imports of fish and seafood exceeded three quarters of the market.

Fish Imports, Mln USD

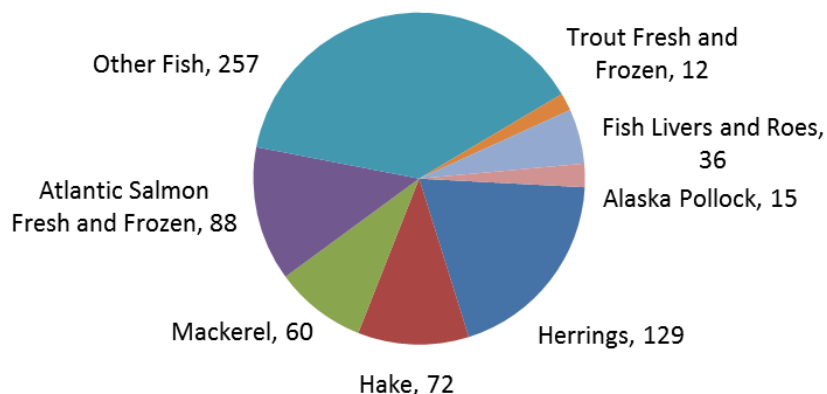


Source: Global Trade Atlas

Despite a variety of different species imported into Ukraine, supplies of inexpensive herring, hake, mackerel, and Alaskan Pollock comprise over forty percent of the market. All four species can be

considered “traditional” in the Ukrainian diet. Ukrainians switch to more expensive seafood during economic upturns, but quickly return to cheaper products during crisis times. Imports of chilled salmon and more expensive fish stopped completely in the early months of 2015, when the currency experienced a significant loss in value. Sales of other expensive products dropped as a result.

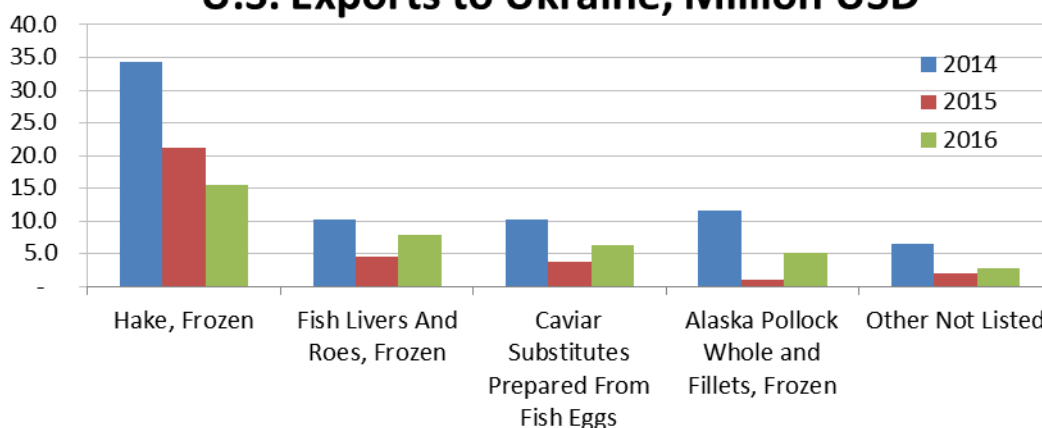
Ukraine's Fish Import Structure in 2016, Million USD



Source: Global Trade Atlas

In 2016, the United States was the third largest seafood exporter to Ukraine after Norway and Iceland. American companies were able to develop markets for traditional fish, competing with Russian, Norwegian and Canadian exporters.

U.S. Exports to Ukraine, Million USD



Source: Global Trade Atlas

Historically, U.S. exports are based on two major products: hake and salmon roe. While demand for other niche seafood products could possibly be developed in the future (such as U.S. canned salmon or other high-value products), significant marketing efforts would be required for successful market penetration. Careful analysis of a product’s unit cost after import and market placement, as well as potential future sales volumes across market segments, should be conducted as exporters research new categories.

Salmon Roe

Salmon roe is perceived as a premium product by Ukrainian consumers. This product is consumed in a limited number of countries. Significant markets exist in Russia and Belarus, and smaller ones in Japan, Korea and China. U.S. salmon roe entered the Ukrainian market in the mid-2000's as a cheaper alternative to Russian product. Often the U.S. product was defrosted and sold by weight, unlike traditional, but more expensive, Russian frozen, canned roe. Earlier shipments of U.S. salmon roe were sold defrosted and, in-store, packaged in small plastic containers. Frequent inappropriate storage temperatures led to an increase in damaged roe, increased liquid content, and overall lower quality of the product.

However, over time U.S. product gained market shares in both expensive and cheaper market segments. Defrosting and canning is now conducted in the controlled environment of local canneries. Deliveries of U.S.-packed plastic containers started recently, but were unable to gain significant market share. The price and the volume of one container were too high, depressing sales despite superior quality. Almost none of the retail cans of American salmon roe bear a country of origin indication, which creates an unjustified "Russian product" perception. This may depress sales due to increasing anti-Russian sentiment. Sales of salmon roe are seasonal, and consumption peaks prior to New Year and Christmas holidays as this product became a traditional food for those celebrations.

Introduction of the [import ban](#) for seafood products of Russian origin, on January 1st, 2016, helped U.S. roe exporters maintain their market share. However, significant salmon roe export expansion took place from the land-locked Belarus, suggesting that Russian product may still enter the country.

Hake

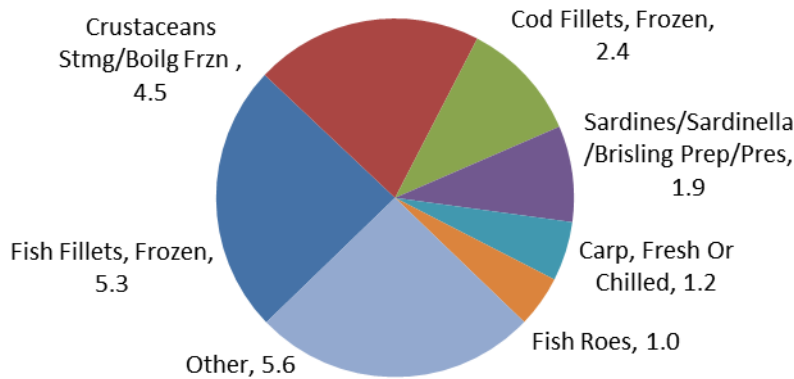
Hake has been well known to Ukrainian consumers as affordable fish for a number of years. It is one of the traditional products supplied to Ukraine. For a number of years, hake has been the largest U.S. export product by volume. In 2015, hake constituted over 65 percent of all exports. The situation changed in 2016 because of heavy competition with Canadian suppliers. Simultaneously, Ukrainian importers discovered Alaskan Pollock and increased supplies significantly. Being one of the cheapest proteins, hake will likely remain highly attractive for Ukrainian consumers in 2017. Demand for this product is very price-sensitive and follows the cheapest seller. Supplies from the United States are expected to increase following income growth.

Recently imports of hake were boosted by a government procurement system change. With the switch to a modern, transparent internet-based system, a lot of importers were able to start supplying hake for the Ukrainian army and penitentiary authority.

Exports

Seafood exports from Ukraine became insignificant after the Russian market closure in 2014. In 2016, Belarus became Ukraine's leading export destination. Belarus also enjoys a free trade regime with Russia, which could explain the spike in imports from Ukraine. Total exports of Ukrainian seafood dropped from USD 40 million to USD 22 million in 2016. To compensate for the loss, Ukraine was able to develop a number of export destinations in the Former Soviet Union, Europe and the Middle East.

Fish and Fish Products Exports in 2016, Mln USD



Source: Global Trade Atlas

Frozen fillets and crustaceans (krill and freshwater crawfish) constitute over half of all exports from Ukraine. Once significant, canned products and processed fish in brine or oil dropped significantly. Ukraine is not a major processing hub for fish products. However, proximity to the Belarus market makes Ukraine a transshipment point for raw fish products that will be processed on Belarusian territory for further sales in Russia.

All imports and exports in this report are based on Ukrainian official customs statistics as presented in the World Trade Atlas. However, some FAS contacts in the industry expressed their concerns about underreported imports of fish, and over-reported exports of unprocessed seafood products. However, opinions and analysis regarding illicit trade is beyond the scope of this report.

FAS/Kyiv appreciates the contributions and valuable comments of the Association of Fish and Seafood Importers of Ukraine and the Ukrainian seafood importing and processing companies and individuals that provided insight during the drafting of this report.

Attachments

Table 1. Top 10 Suppliers of Fish to Ukraine in 2014-16

	Partner Country	2014		2015		2016	
		USD	Quantity, MT	USD	Quantity, MT	USD	Quantity, MT
	World	667628641	340286	318807390	226476	455666595	293975
1	Norway	209293354	98782	110416008	60564	127201782	63892
2	Iceland	39516929	25255	30049162	22345	61899004	47570
3	United States	72853184	30253	32497948	17053	37831473	17899
4	Canada	22533936	10110	12940412	8614	33334945	22951
5	China	37410768	13063	10239060	3742	20492401	7727
6	Argentina	23028220	8931	2708719	1127	19880080	11690
7	Vietnam	33546372	17026	9207799	4538	14346938	8944
8	United Kingdom	32179064	15848	6134369	4619	14085586	11350
9	Spain	25281695	15116	11759944	8583	13916610	9470
10	Estonia	18479113	25996	17353928	38341	13278755	31075
	Other not Listed	153506009	79907	75500040	56953	99399020	61408

Source: Global Trade Atlas

Table 2. Import of Processed Fish Products to Ukraine

HS Code	Description	2014		2015		2016	
		USD	Quantity, MT	USD	Quantity, MT	USD	Quantity, MT
1604	Prepared or Preserved Fish; Caviar & Caviar Substitutes	68247253	31297	26675796	15505	39170287	19572
160432	Caviar Substitutes Prepared from Fish Eggs	21185049	2703	7670946	1111	13502652	1672
160420	Fish, Prepared Or Preserved, Nesoi	18886385	10653	5108037	3551	7230084	4736
160413	Sardines/Sardinella/Brisling Prepared/Preserved, not Minced	9152887	12138	4936621	7667	6023731	9190
160419	Fish, Prepared Or Preserved, Whole or Pieces Nesoi	9785546	2963	3299404	898	5201583	1502
160417	Eels Prepared/Preserved Whole/in Pieces not Minced	1719817	345	1392145	257	2098834	393
160412	Herrings Prepared or Preserved, Whole or in Pieces	3792832	1354	1948660	1322	1912525	1044
160414	Tunas/Skipjack/Bonito Prepared/Preserved, not Minced	2357767	707	1498837	502	1896455	713
160416	Anchovies, Prepared or Preserved, not Minced	589483	210	473625	121	440971	129
160411	Salmon, Prepared or Preserved, Whole or Pieces	241560	45	107695	22	377551	99
160431	Caviar	195627	0	166092	0	307359	0
160415	Mackerel, Prepared or Preserved, not Minced	340300	180	73733	55	178543	93

Source: Global Trade Atlas

Table 3. Fish Processing in Ukraine, MT

Processed Products	2012	2013	2014	2015	2016
Fish Fillets, Other Fish Meat Frozen	32600	39494	5160	9812	12145
Fish Fillet Jerked, Salted or in Brine (not Smoked)	1736	1492	895	735	874
Fish Dried and Jerked	4050	3627	2929	2238	3356
Herring Salted	4830	4181	4005	3202	2846
Other Fish Salted	6733	7756	2514	1969	1554
Fish and Fillets Smoked	7746	7491	6155	4934	5292
Fish Canned or Processed in other ways with Exception of Ready-to-Eat Dishes	61739	77215	47367	32937	31742
Fish Roe and Roe Substitutes	1382	2391	2319	1915	2690

Source: Global Trade Atlas

Table 4. Seafood Exports from Ukraine

Partner Country	2014		2015		2016	
	USD	Quantity, MT	USD	Quantity, MT	USD	Quantity, MT
World	48602593	39624	17783589	8692	21914386	8269
Belarus	905836	337	1154646	217	4754031	1103
Germany	5785624	813	4724032	1097	4142555	1067
Denmark	1004	0	891009	216	3123794	857
Moldova	2139458	1139	1481039	671	1840710	1098
Iraq	0	0	113039	210	1159538	812
Georgia	945646	562	921812	706	781297	660
Lithuania	1429188	170	560245	173	686999	333
United States	192555	55	569793	92	680163	139
Russia	31088487	33344	2064403	2427	1838	0
Other not Listed	6114796	3204	5303568	2880	4743459	2195

Source: Global Trade Atlas