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Ukraine

Livestock and Products Annual

Report

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Report Highlights:
Both cattle and swine production continued to be depressed in Ukraine in 2018-19, and production levels are not expected to change much in 2020. African Swine Fever (ASF) remains a major obstacle for the swine industry. ASF cases were registered in wild fauna, households and large integrated farms. Livestock producers and traders were able to increase live cattle for slaughter exports. This provided much needed cash flow to maintain the livestock sector. Local demand remains weak despite continued disposable income growth. Significant work force migration to the EU was the major contributing factor. Imports of pork in 2019 remained lower than expected. Consumers continue to substitute red meats with poultry in their diets.

Executive Summary:

Ukraine's swine inventory and pork production remain stagnant despite attractive domestic pork prices throughout 2018 and the first half of 2019. ASF remained the major factor affecting production decisions. Multiple cases were registered on farms of various types and sizes, decreasing production incentives. Disease outbreaks in 2019 evidenced that even modern industrial farms with high biosecurity standards are not immune. However, decreased slaughter and pork production did not lead to stronger imports in late 2018 - early 2019.

Decreased pork imports in early 2019 were not anticipated: disposable incomes remain on the rise and trade barriers are low. Major pork exporters—EU countries—enjoyed zero import duty Tariff Rate Quotas (TRQs) established under the Ukraine-EU Free Trade Agreement. Accelerated workforce migration to EU countries is one of the key reasons for lower demand. It is believed that seven percent of Ukraine's population of 41.8 million work abroad. Immigration flows accelerated rapidly in 2017-18 leading to a drop in demand and a slowdown in imports. However, pork imports are still expected to continue at decreased rate in both 2019 and 2020.

Ukrainian cattle numbers continued its two decades-long downward trend. Beef production remains largely a function of Ukraine's dairy production, with an insignificant number of beef animals. Although the beef production number for 2018 was revised to reflect newly available official statistics, beef consumption in 2019 and 2020 is expected to reflect the overall downward production trend. According to World Bank statistics, Ukraine remains a lower-middle income country. Income growth remains insufficient for a notable increase in domestic consumption of beef products. To compensate for low domestic demand, cattle farmers have significantly increased exports of live animals. Slaughter animals are exported predominately to Middle Eastern and Central Asian markets. In 2020, Ukraine's beef exports are expected to continue to slide down, while live animal exports remain strong.

Beef imports including imports from the U.S. concentrate in the upper market segment where Ukrainian producers are not able to deliver consistent high-quality product. The market will continue to grow following increased disposable incomes and market niche.

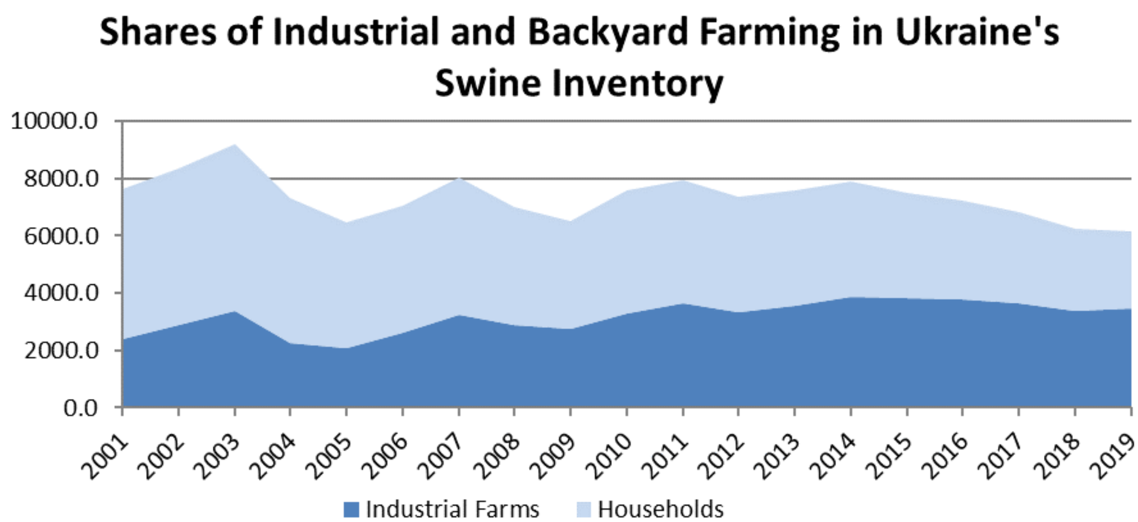
PSD Calculations Notes
Ukraine renewed its animal slaughter number publications. Slaughter numbers for both bovine animals and pigs increased in 2018, reflecting official statistics. Official beef and pork production numbers also increased. Post added Crimea production data to Ukrainian production figures for all PSD figures.

Production

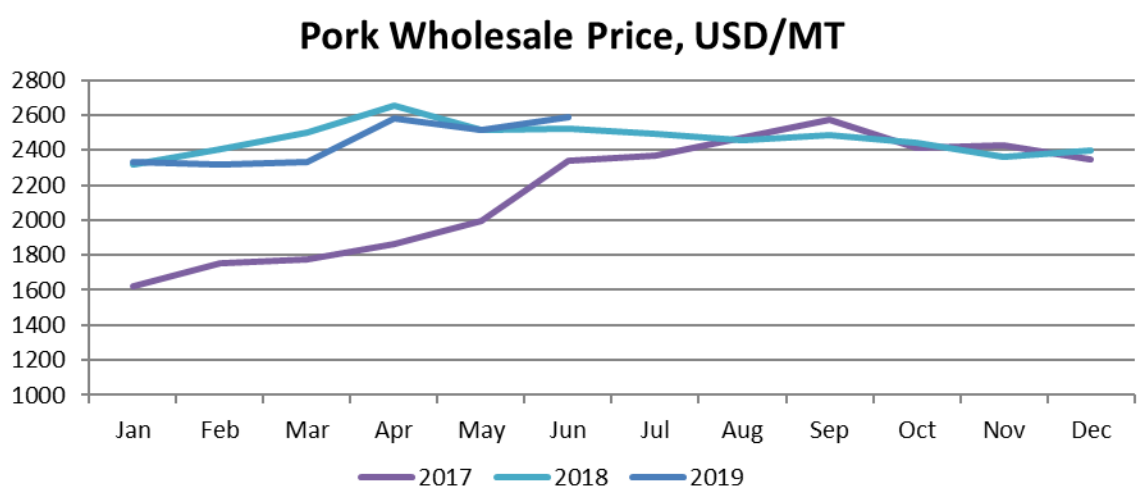
Swine/Pork

The Ukrainian swine industry was unwilling to increase production in 2018-19 despite attractive pork prices. Lower efficiency of household pig production resulted in an insignificant contraction of the number of animals, which was immediately offset by an insignificant production increase in the industrial sector. Post changed its pork production forecast for 2019 from an increase to stabilization: the sow number remains almost unchanged, reflecting industry's flat production trend.

The market situation provides limited incentives for an increase in production in 2020: the current production volume is sufficient for domestic consumption, while the majority of export markets remain closed due to ASF presence in almost all regions of the country.

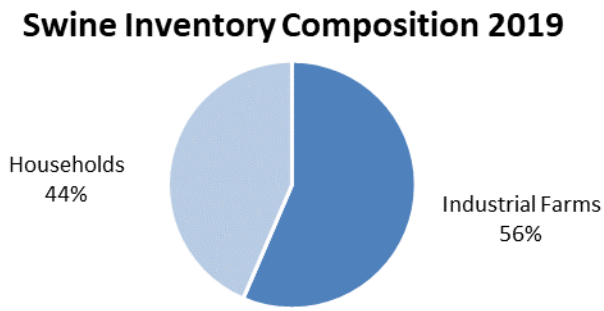


Sources: State Statistics Service of Ukraine



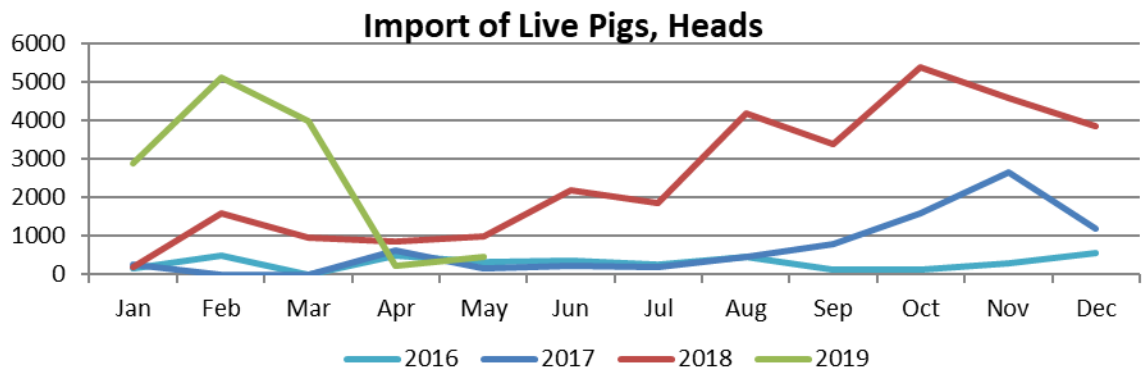
Sources: State Statistics Service of Ukraine, National Bank of Ukraine, FAS/Kyiv

Household inventories constitute a significant portion of Ukraine's total animal number, although their share is diminishing over time. The majority of household pigs are slaughtered in backyards and the meat is sold at open-air markets. Only a small share of household pigs ends up in official market channels.



Sources: State Statistics Service of Ukraine;

Ukraine imports live pigs for both further fattening and breeding purposes. After some production optimism in 2018 and early 2019, piglet imports decreased to a three-year low in April 2019. Only a very small number of purebred pigs continue to be imported to maintain the domestic swineherd genetics pools at large integrated farms. Many industrial farms restrict live animal movement due to ASF concerns.



Source: Global Trade Atlas

Post revised the pork production number for 2018 to reflect an increase in the official numbers for pig production and slaughter. The industry is expected to remain stagnant in both 2019 and 2020 with flat production forecasts. The swine disease situation will remain the major depressing factor.

Disease Situation

The spread of ASF in Ukraine leaves very little room for optimism despite the relatively small number of officially registered outbreaks.

Table 1. African Swine Fever Spread in Ukraine

	2012	2014	2015	2016	2017	2018	2019 (Jan-Aug)
Number of ASF Cases	1	16	40	91	163	145	40

Source: http://www.asf.vet.ua, SSUFSCP, Institute for Laboratory Diagnostics and Veterinary-Sanitary Expertise

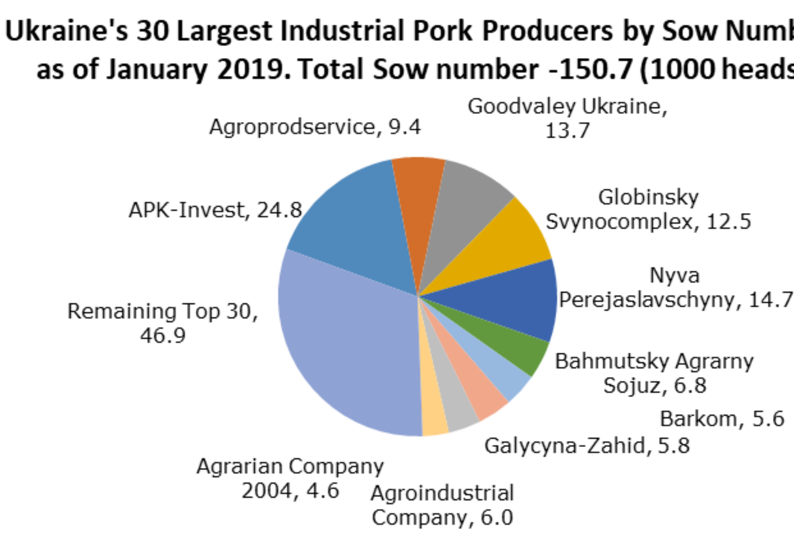
In 2019, ASF cases were registered in small household farms scattered all over the country, wild fauna, and large integrated producers. Ukraine's veterinary service conducted animal depopulation in affected areas. Household and wild fauna outbreaks create risk factors that are beyond control of large bio-secure producers. Animals at any farm can be culled at any moment due to neighboring farm outbreaks or the discovery of a wild boar carcass in a nearby forest. This creates an enormous production disincentive.

After depopulation, many impacted farms do not return to the pig business. This is especially true for smaller and non-specialized farms. Ukrainian legislation does not envisage financial compensation for culled animals of impacted agricultural producers. This creates an incentive to hide disease outbreaks and leads to devastating losses that often cause farm bankruptcy or the inability to resume production for a long time.

Households are compensated for culled animals, so the incentive to hide an outbreak is smaller. However, households may choose not to report the case because of peer pressure: all animals in the village are likely to be culled making the reporter an extremely unpopular person. A reported case may also affect a large integrated farm nearby where a majority of villagers (and often the reporter himself) are employed. The latter increases the risk of a larger outbreak at an industrial farm.

The market environment in Ukraine changed as well. Many farmers do not trust their neighbors, do not allow trucks from slaughterhouses to approach their property, and do not import breeding animals when needed. All these factors result in a decrease in production efficiency.

The chart below represents the 30 largest industrial pork producers and names the top 10. Just as this report was being drafted, an ASF outbreak was registered and animal culling began at Ukraine's 7th largest pork producer – Galychyna Zahid. Close to 100,000 animals will be destroyed in the upcoming days.

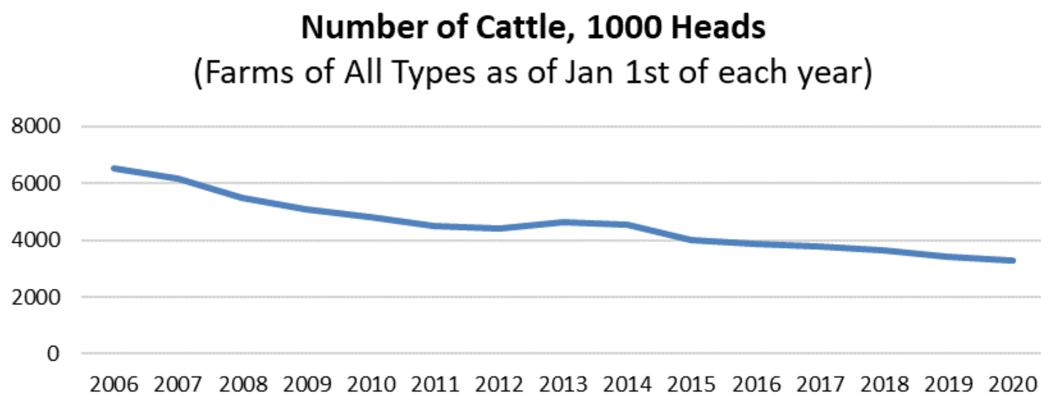


Sources: Association of Swine Breeders of Ukraine

It is hard to imagine a significant production increase without resolution of the ASF problem. Post will submit a separate report on ASF developments.

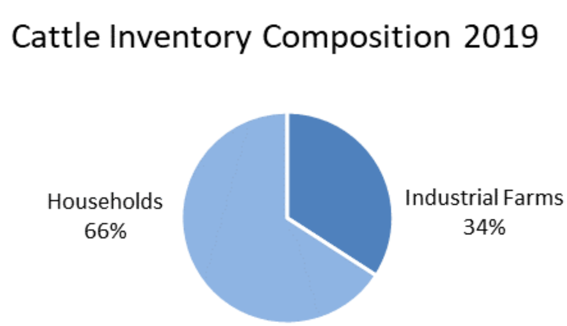
Cattle/Beef

The majority of Ukraine's bovine animal herds are dairy-purpose animals. Large dairy farms often sell young dairy calves to households after weaning. The majority of smaller farms and households use a low-cost approach to grazing cattle until further sale at a relatively low weight and young age. There are no large-scale finishing operations or feedlots in Ukraine. Beef production remains dependent on milk production and prices. Although the milk price in Ukraine remained high in 2018, domestic demand was rather weak despite increased incomes. The livestock number continued to decline in 2018-19 and is expected to remain on a downward trend in 2020.



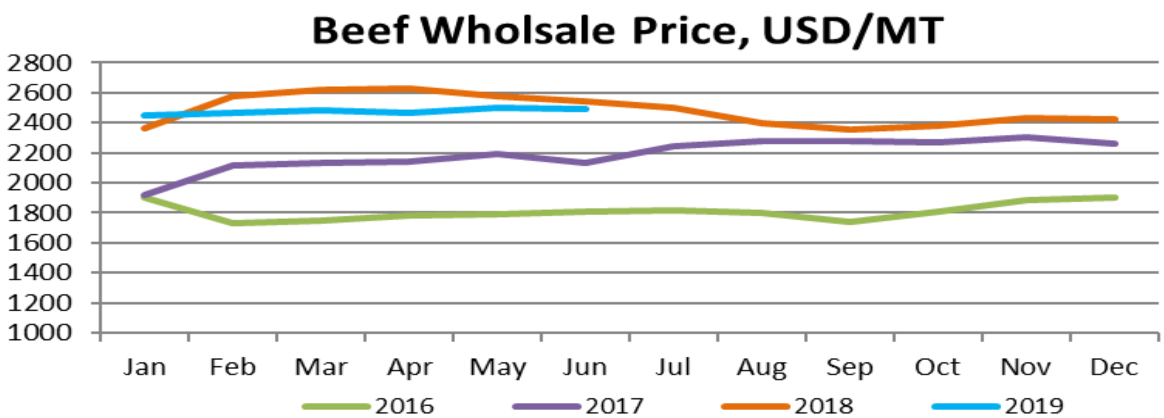
Sources: State Statistics Service of Ukraine

Households play the major role in beef production, although their role is diminishing over time. The majority of households keep dairy cows and view male calves as a low-cost side business. A smaller share of backyard-slaughtered beef is consumed by the households themselves. The larger share ends up in open-air markets all over the country. A large number of small backyard slaughterhouses operate unofficially. An increasingly large number of animals are sold for slaughter at industrial slaughterhouses or for further exports.



Sources: State Statistics Service of Ukraine

The price for domestic beef remains strong for the second consecutive year. It is supported by stable exports of Ukrainian beef and quickly growing exports of Ukrainian live cattle. No major changes are expected in 2020: the cattle inventory is expected to decline insignificantly. Exports of live cattle and beef generate sufficient economic interests to prevent a major inventory drop.



Source: State Statistics Committee of Ukraine, National Bank of Ukraine, FAS/Kyiv

Consumption

The Ukrainian red meat market shows no sign of consumption growth, despite significant disposable income growth. In 2019, per capita incomes are expected to reach and exceed the pre-crisis level of 2013. However, the beef market exhibits no sign of an increase in consumption. Beef exports declined insignificantly while exports of live animals accelerated. Pork consumption also shrunk, and imports exhibited no signs of increase. Moreover, imports went down notably in early spring of 2019.

One of the reasons of the consumption decline is the substitution of more expensive red meat with cheaper poultry (including imported mechanically deboned poultry from EU). However, it is unlikely to be the key reason for the decline: poultry consumption is not expected to increase significantly in 2019.

Decreased red meat consumption can be better explained by a decrease in the number of consumers. The real number of red meat consumers is believed to be much smaller than the official population numbers suggest. Ukrainian statistics already account for a 2.3 million drop in population due to the loss of control over the Crimean Peninsula. An additional 2.5 to 3 million people are located in eastern Ukraine, which is not controlled by the central government. There is no meat trade with those territories is eastern Ukraine. Moreover, another 3.2 million Ukrainians work abroad. Foreign workers send a portion of their income back to Ukraine contributing to a consumption increase. Remittances from abroad amounted to $11.6 billion in 2018. However, the work migration impact is likely to have a negative net effect, as the number of consumers lost does not offset the marginal consumption increase.

The market for high-end beef products is growing slowly. Consumption is limited to high-end restaurants and premium retail stores.

Trade

The spread of ASF was the major factor affecting trade in pork and live pigs in 2019. This problem is expected to persist in 2020.

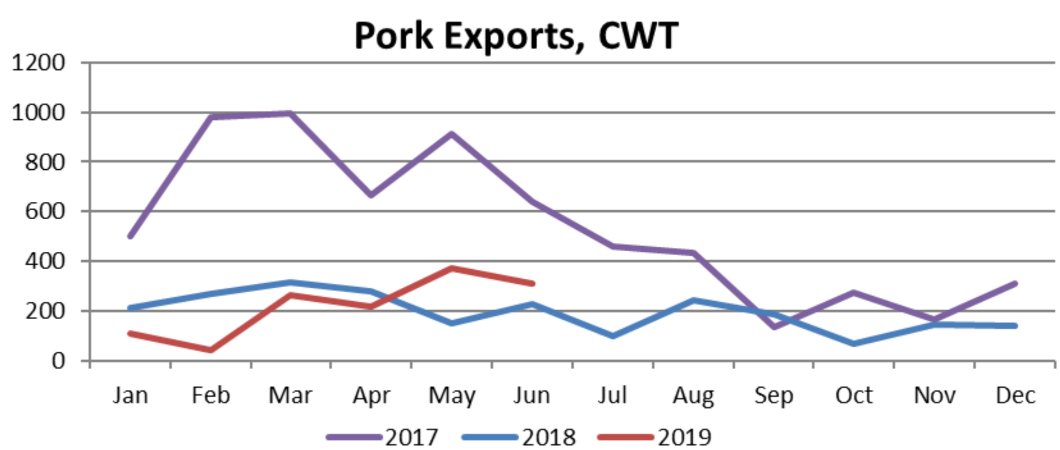
Increased imports of live cattle helped compensate for a sluggish domestic demand for beef and remained the major trade-affecting factor in 2020. Given a decrease in the animal inventory number, Ukraine is unlikely to sustain the same level of live cattle exports in 2020. However, live bovine animal exports will remain substantial.

As forecasted in earlier GAIN reports, Ukraine increased pork importer in 2018. Imports are expected to continue in 2019-20, but at a somewhat lower level.

Exports

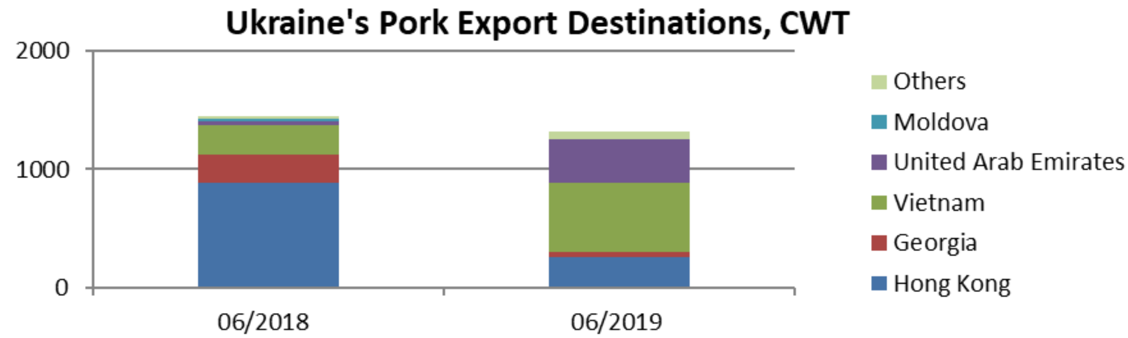
Pork

Due to the presence of ASF in the vast majority of Ukrainian regions, exports of pork are very limited. Exports are not expected to resume in 2019 or 2020. Although OIE rules allow for regional export restrictions, it is hard to convince foreign partners of the safety of Ukrainian pork and pork products. In 2019, Ukraine attempted to resolve the problem through creation of production compartments. To form one, producers would need to create closed production systems with a high biosecurity level. These compartments need to be evaluated and recognized by potential trade partners. So far, not a single compartment was created or approved for exports.



Source: Global Trade Atlas

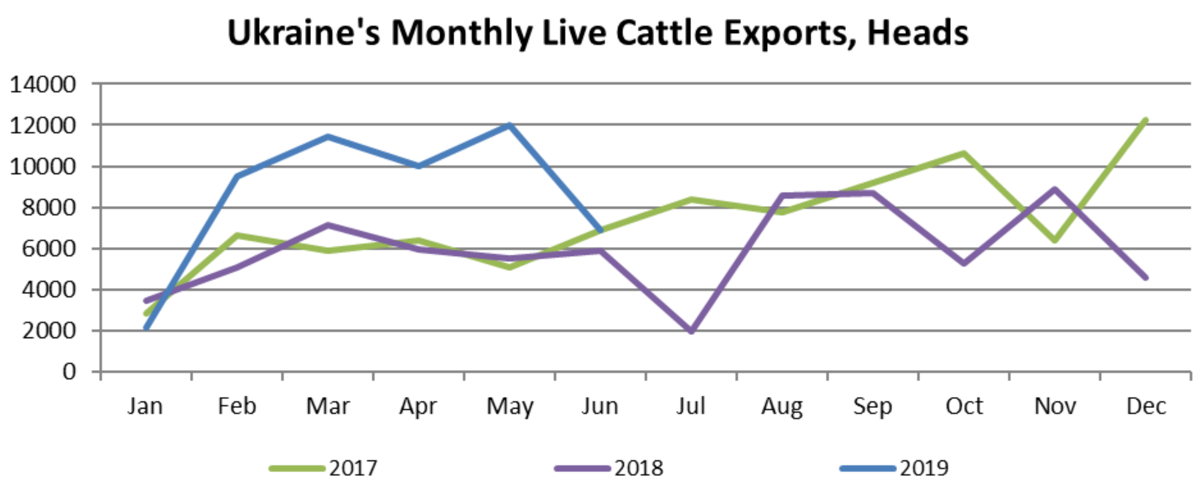
Trade is limited to a few export destinations with the majority of Ukraine's foreign markets in ASF affected countries.



Source: Global Trade Atlas

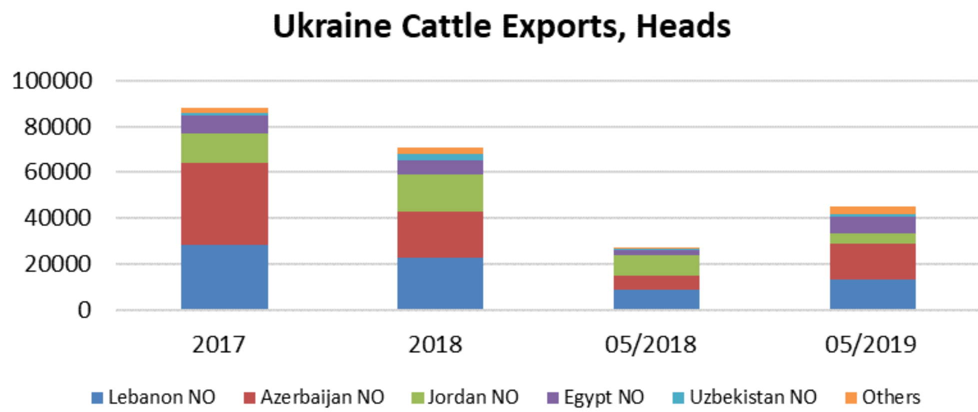
Cattle and Beef

Decreased domestic demand for dairy products and beef products led to a significant increase in live cattle exports in 2019. As the animal inventory in the country is decreasing, the export spike is not expected to be sustainable. Although exports somewhat weakened in June, Post increased the 2019 export forecast to reflect earlier numbers. Exports in 2020 are expected to fall below the 2019 level.



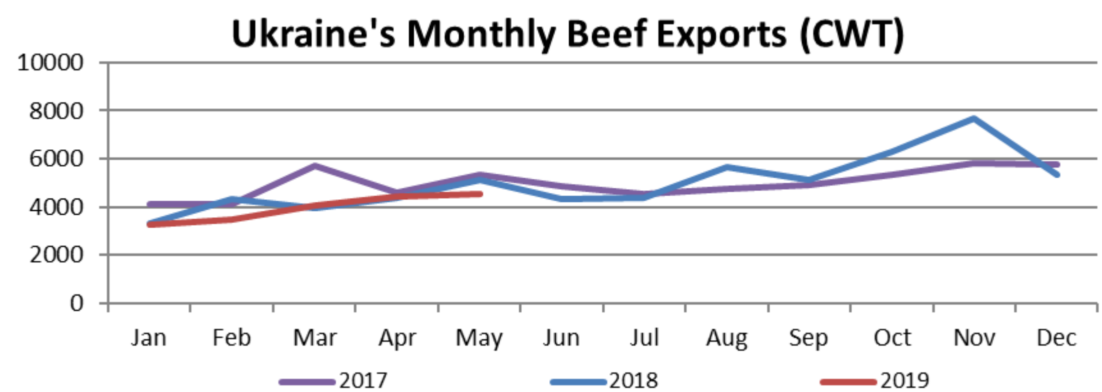
Source: Global Trade Atlas

Ukrainian cattle are exported to Middle Eastern and Central Asian markets where demand remains strong. Increased cattle exports depress beef exports, while domestic demand remains weak. Exports in 2020 are expected to be somewhat lower due to animal inventory contraction.



Source: Global Trade Atlas

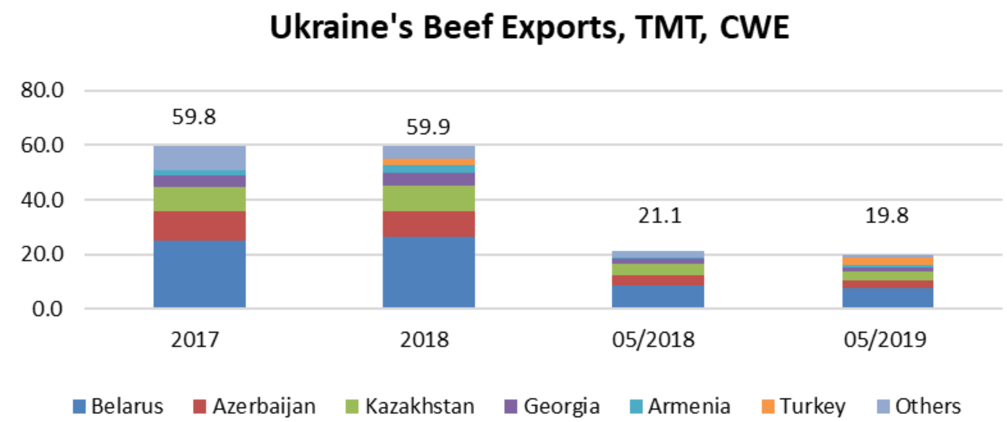
As forecasted, beef exports remained stable in 2018-19 with a small overall decline due to animal inventory contraction. The situation is not expected to change in 2020.



Source: Global Trade Atlas

Neighboring Belarus remained the largest importer of Ukrainian beef, after Russia's import ban introduction in 2016. Belarus and Russia are Eurasian Customs Union (ECU) members with free trade flows of processed products between the countries. Belarus remained the largest beef and beef products supplier to Russia in 2019. The recent simplification of transit rules by Russia led to an improvement in Ukraine's market access to traditional beef markets in Azerbaijan and Kazakhstan in 2019.

Ukraine is not expected to start beef exports to the EU market in near future. Traditional beef markets with less restrictive food safety requirements and live cattle exports provide sufficient export opportunities. Ukraine is not expected to utilize their EU beef import TRQ available under the Deep and Comprehensive Free Trade Area Agreement.

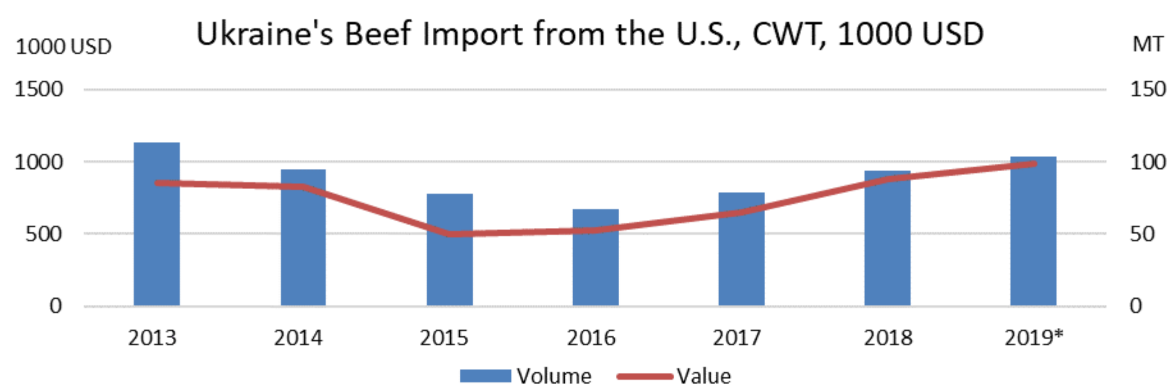


Source: Global Trade Atlas

Imports

Beef

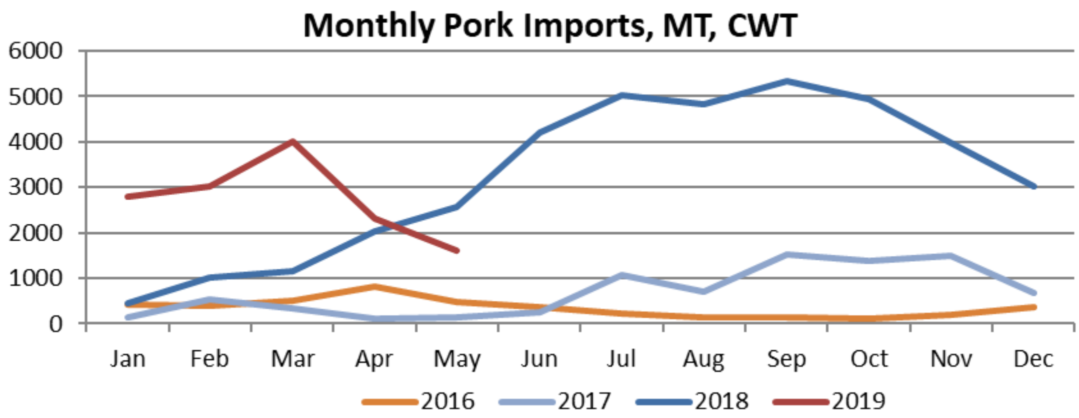
Ukraine imports small quantities of premium-quality beef. Ukrainian domestic producers are unable to provide regular beef supplies of consistent quality. The United States is one of the major suppliers of chilled beef cuts and trade is increasing annually. Premium beef imports are consumed by the Ukrainian HRI sector and upper segment retail stores.



Source: Global Trade Atlas
** Forecast*

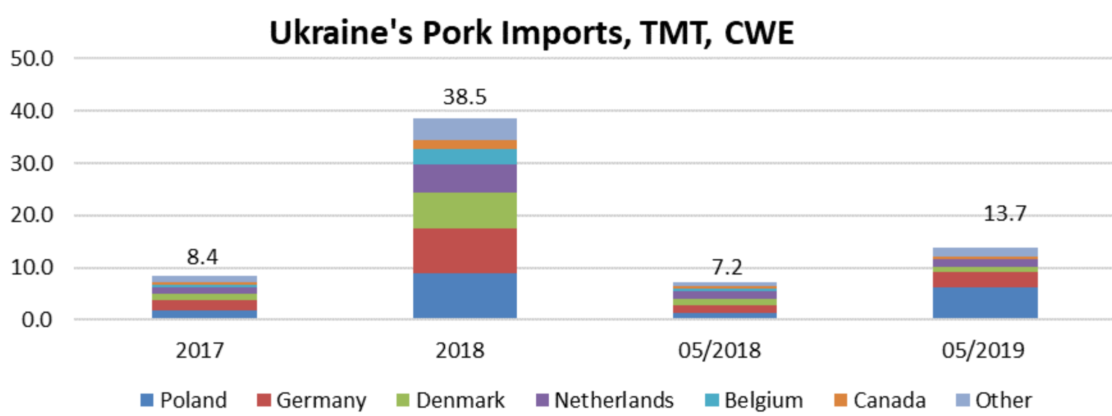
Pork

In 2018, the domestic swine industry was slow to react to increased domestic demand due to the major decrease in sow numbers in 2015-17. As a result, pork imports grew quickly in 2018. The 2019 import outlook was decreased as lower than expected demand was recorded despite disposable income growth. The domestic production situation remains very turbulent due to ASF outbreaks in large industrial farms. Pork imports in the remaining months of 2019 may be very turbulent as well.



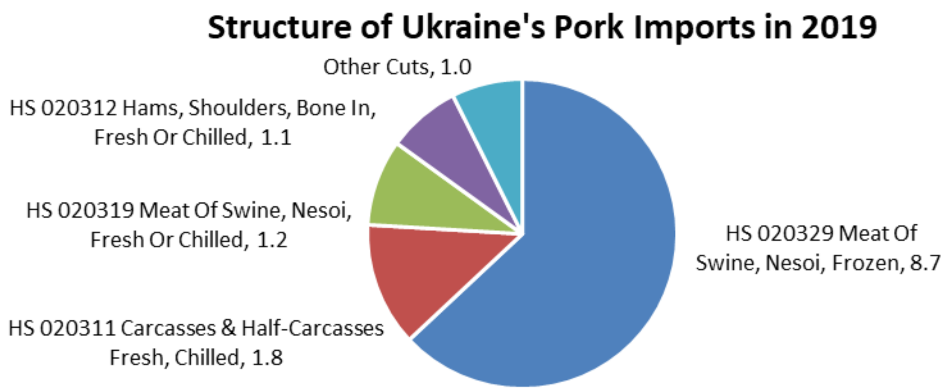
Source: Global Trade Atlas

EU countries are expected to remain as the major pork suppliers to Ukraine. Ukraine's demand is price sensitive and the EU can offer cheap pork trimmings for further processing at an affordable price. Zero import duty TRQ provides additional trade advantage. Poland remains the major supplier, despite ASF cases being registered in some regions.



Source: Global Trade Atlas

Contrarily to the processing industry expectations, Brazilian suppliers were unable to compete with the EU and did not enter the Ukrainian market in 2018-19. Canada remained competitive in narrow product ranges supplying hams (HS 0203221100). Canadian suppliers also benefit from a Free Trade Agreement with Ukraine. Although over 70 percent of Ukraine's import market remained occupied by trimmings and offal, there are limited export opportunities of higher value cuts. Should major ASF outbreaks continue, significant additional imports of pork may be demanded.



Source: Global Trade Atlas

Section II Statistical Tables *

Ukraine Animal Numbers, Cattle

Animal Numbers, Cattle	2018		2019		2020
Market Begin Year	Jan-18		Jan 2019		Jan 2020
Ukraine	USDA Official	New Post	USDA Official	New Post	New Post
Total Cattle Beg. Stks	3645	3645	3483	3438	3307
Dairy Cows Beg. Stocks	2079	2069	2079	1972	1900
Beef Cows Beg. Stocks	21	21	20	20	20
Production (Calf Crop)	1995	2104	1920	2020	1950
Total Imports	2	2	2	2	2
Total Supply	5642	5751	5405	5460	5259
Total Exports	71	71	67	90	85
Cow Slaughter	0	0	0	0	0
Calf Slaughter	0	0	0	0	0
Other Slaughter	2052	2206	1955	2030	1941
Total Slaughter	2052	2206	1955	2030	1941
Loss	36	36	33	33	33
Ending Inventories	3483	3438	3350	3307	3200
Total Distribution	5642	5751	5405	5460	5259

**Not Official USDA Data*

Ukraine Animal Numbers, Swine

Animal Numbers, Swine	2018		2019		2020
Market Begin Year	Jan-18		Jan-19		Jan-20
Ukraine	USDA Official	New Post	USDA Official	New Post	New Post
Total Beginning Stocks	6236	6236	6115	6153	6100
Sow Beginning Stocks	383	382	400	379	380
Production (Pig Crop)	8100	8816	8550	8740	8750
Total Imports	30	30	35	20	20
Total Supply	14366	15082	14700	14913	14870
Total Exports	9	9	5	2	2
Sow Slaughter	0	0	0	0	0
Other Slaughter	7612	8310	7895	8221	8220
Total Slaughter	7612	8310	7895	8221	8220
Loss and Residual	630	610	600	590	590
Ending Inventories	6115	6153	6200	6100	6058
Total Distribution	14366	15082	14700	14913	14870

**Not Official USDA Data*

Meat, Beef and Veal

Meat, Beef and Veal, in CWT	2018		2019		2020
Market Begin Year	Jan-18		Jan-19		Jan-20
Ukraine	USDA Official	New Post	USDA Official	New Post	New Post
Slaughter (Reference)	2052	2206	1955	2030	1941
Beginning Stocks	0	0	0	0	0
Production	340	375	330	345	330
Total Imports	2	2	2	2	2
Total Supply	342	377	332	347	332
Total Exports	60	60	55	55	50
Human Dom. Consumption	282	317	277	292	282
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	282	317	277	292	282
Ending Stocks	0	0	0	0	0
Total Distribution	342	377	332	347	332

**Not Official USDA Data*

Meat, Swine

Meat, Swine, in CWT	2018		2019		2020
Market Begin Year	Jan-18		Jan-19		Jan-20
Ukraine	USDA Official	New Post	USDA Official	New Post	New Post
Slaughter (Reference)	7612	8310	7895	8221	8220
Beginning Stocks	0	0	0	0	0
Production	680	732	700	720	720
Total Imports	39	39	45	30	30
Total Supply	719	771	745	750	750
Total Exports	2	2	2	1	1
Human Dom. Consumption	717	769	743	749	749
Other Use, Losses	0	0	0	0	0

Total Dom. Consumption	717	769	743	749	749
Ending Stocks	0	0	0	0	0
Total Distribution	719	771	745	750	750

Not Official USDA Data