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Report Highlights:

Ukraine's chicken meat production is expected to decline by over 8 percent in 2022. The industry is experiencing significant problems with inputs procurement, in-country, and export logistics, domestic consumer base decrease, and labor force shortages. It suffers from significant currency devaluation, debt servicing problems, and a lack of bank financing. Both chicken meat exports and domestic consumption are expected to decline in 2022 prior to a slight recovery in 2023. Growing poultry prices and an abundance of cheap feed will have a modest positive impact. Imports are expected to drop, driven by lower domestic demand. Exports are expected to get redistributed with the EU market growing in importance.

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

From January to mid-February of 2022 Ukrainian poultry industry exhibited modest growth, as expected. The overall production decrease caused the bankruptcy of the industry's second-largest player in December of 2020 was gradually filled by other producers. Exports remain at an all-time high. No disease outbreaks threatening production or exports were recorded. After the war start on February 24th, 2022, Ukrainian chicken meat producers lost access to some key markets in the Middle East, Black Sea, and Central Asia countries. War-related transport, financial and trade restrictions, population relocation, and a refugee crisis created an extremely hostile and unpredictable market environment. Poultry exports were originally subject to export licensing, but later, the Government of Ukraine (GOU) abandoned all limitations.

Immediately after the war started, the industry reduced production to evaluate new market conditions. Exports routes were limited to over land routes through the EU. Some chicken meat product batches destined for export were sold or given away domestically. Originally, most of the warfare took place in the North, South, and East, but the Russians were pushed away from the capital and regrouped to concentrate in the Southern and Eastern parts of the country. No large poultry production facilities are located in the war-impacted regions as of August.

Significant out-of-country refugee flow followed by a war-related income drop resulted in the gradual shrinkage of the domestic market. The poultry industry changed its logistics system to exclude sea routes and concentrated on railways and truck exports. This resulted in reefer container shortages and export delays due to long lines by Ukraine's western border. Facing export logistics problems, Ukrainian producers partially refocused on the shrinking domestic market. All of these resulted in a chicken meat import drop. Exports declined too.

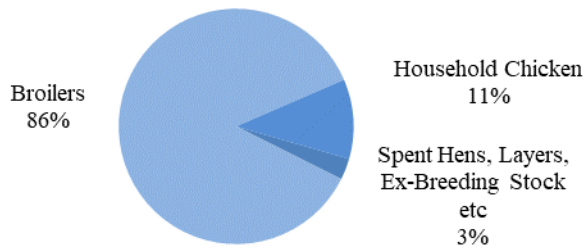
The poultry market stabilized in the late spring of 2022. Trade recovered significantly as Great Britain and the EU abolished their import quotas for Ukrainian poultry to support the economy and simplified transshipment procedures. The logistics were also streamlined, although multiple bottlenecks on both Ukrainian and EU sides of the border remained. Russian invaders were pushed back from the North and stopped in the East and South, providing some short-term predictability. The 2022 production, exports, imports, and domestic consumption are expected to be lower than in 2021. However, the declines will not be as significant as one might expect.

The 2023 forecast is extremely fragile and is based on the existing military *status quo*. In absence of Russian advances and stable export markets, chicken meat production and exports are expected to recover slightly. Both are expected to be short of 2021 levels. Imports are also expected to grow as the Ukrainian industry returns to its traditional export markets leaving some vacant space domestically.

Production

Industrial chicken production in Ukraine is very concentrated with one large producer controlling over 70 percent of the market. Five mid-size companies control between 2 and 6 percent of the market each with the remaining share split among many very small producers. Household chicken meat production is stable and subsistent in nature with a small share of chicken produced sold on open-air markets.

Chicken Meat Production in Ukraine in 2021, PWE, Percent



Source: State Statistics Service of Ukraine, FAS calculations

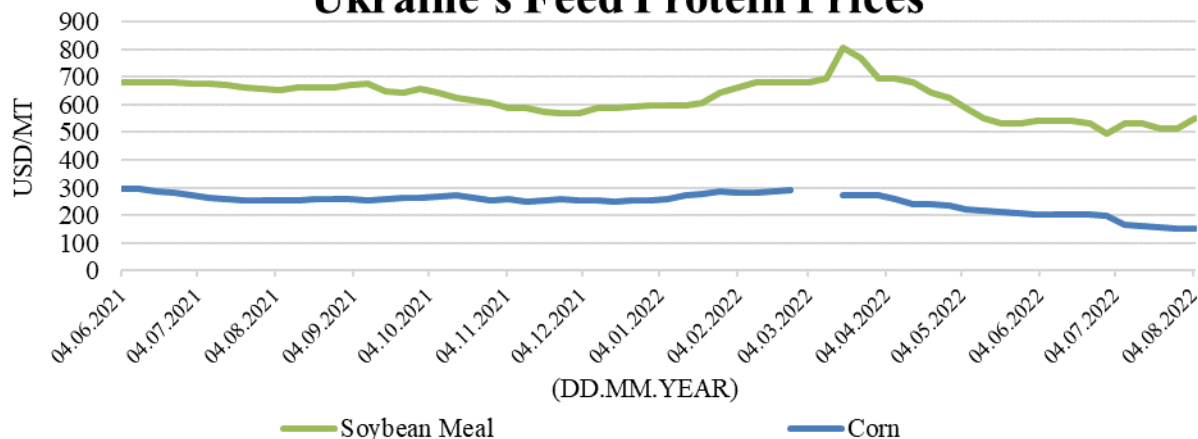
Household production, as well as other non-broiler industrial chicken meat production, will not be reviewed in this report. All references to “poultry” or “chicken meat” below will be focused exclusively on industrially produced chicken.

Unlike many other countries that rely on independent producers’ contracts in the production of chicken meat, Ukrainian industrial producers are vertically integrated. Larger companies can grow their own crops, produce feeds, grow and slaughter chickens, and distribute chicken meat through their own logistics and cold storage systems. Some companies run specialized retail chains, but most of the poultry meat is sold by supermarkets. This production system provides some benefits in a challenging legal environment when contract enforcement could not be secured, and producers are forced to rely on their own supplies. However, various shocks along the supply chain (like crop failure) may ignite meat production problems or even producers’ bankruptcy. It also results in excessive production concentration and excessive market power exercised by the large player(s).

Ukraine’s mid-sized chicken producers are vertically integrated and situated in central and western Ukraine, focusing mainly on the domestic market. None of the facilities or warehouses have been directly impacted by ongoing warfare operations. Despite a turbulent February and March, all Ukrainian producers remained in business and have maintained production.

Due to the limited export throughput of Black Sea ports (three ports re-opened in early August) and problems with export of grains and other commodities, Ukrainian producers were able to benefit from lower domestic feed prices. However, multiple war-related negative factors are likely to outweigh this production benefit. The 2022 grain and oilseed crops are expected to be significant despite notable crop loss due to war-related reasons. Ukraine’s grains and oilseeds production currently exceeds its export bandwidth, so favorable feed prices are likely to remain in place for the rest of 2022 and early 2023.

Ukraine's Feed Protein Prices



Source: APK-Inform

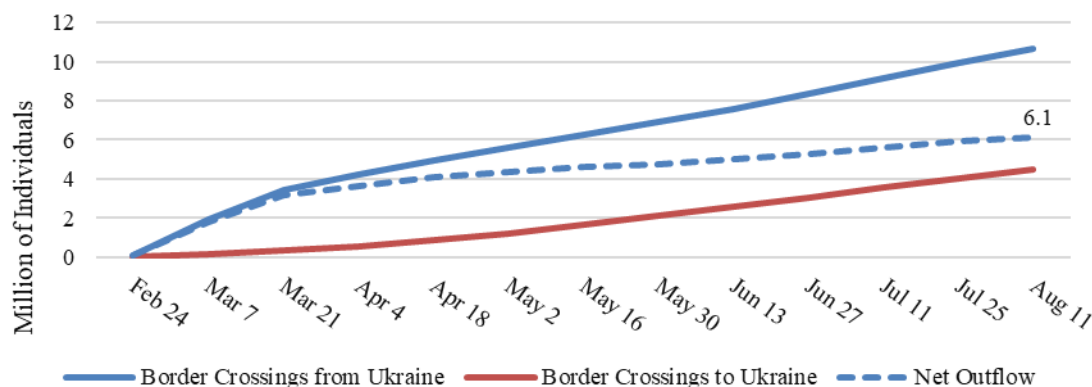
Many small regional producers are responsible for approximately ten percent of the market. Information on small-scale production is very limited. However, most small farms rely on regional markets with well-established ties to local retailers and processors. Their behavior is expected to be similar to the middle-sized producer. They are unlikely to stop production completely but would not be able to sustain the 2021 production level. However, their contribution to Ukraine's total production number is not very significant.

Although Ukrainian currency – (hryvna) denominated chicken meat prices were constantly increasing in 2021 and especially in 2022, USD-denominated prices remained flat. War-related shocks, significant export slowdown, a large number of refugees fleeing the country, and a government-fixed exchange rate resulted in a flat price curve. Chicken meat export recovery in April led to a domestic price increase in May as Ukraine and world markets reconnected and price arbitrage came back to play.

Consumption

Consumer numbers decreased due to refugees outflow abroad and loss of territories, which are the largest contributor to the chicken meat consumption drop in 2022. The war triggered one of the fastest-growing humanitarian and displacement emergencies in recent history. Within weeks over one-quarter of the population had fled their homes to seek refuge abroad or in parts of Ukraine further from the military operations. With an official population of 41.1 million people as of February 1st, 2022, after Russia's invasion 6.1 million people (15 percent of the population) were displaced to other countries by mid-August 2022. Although the outflow trend stabilized and the number of people returning to their homes is growing, the trend is not expected to reverse before the war ended. Moreover, surveys show that close to 15 percent of those abroad are not planning to return. This cuts the number of potential domestic chicken meat consumers in 2022 and will impact consumption in 2023 and beyond.

Cummulative Border Crosings in 2022



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

Another important factor re-shaping the domestic poultry market is the growing number of internally displaced persons (IDPs). This group includes people that left the occupied territories as well as those who fled Ukraine-controlled territories that are adjacent to military activity areas. The number of individuals remaining in occupied territories is not clear, as the situation changes daily. As of August of 2022, domestic chicken meat consumption contracted by over 12 percent and some further decrease is possible as the war progresses.

An additional factor contributing to chicken meat consumption change is the drop in disposable income. Incomes have been undermined by war-related job loss, the Ukrainian economic downturn, the world economic crisis, as well as growing inflation. The government of Ukraine expects the inflation rate to exceed 20 percent by the end of 2022. However, in mid-August, year-to-year inflation already accelerated to 22.2 percent. Chicken meat remains the cheapest protein available to the Ukrainian population and historically suffers the smallest consumption drop during economic crisis periods in comparison to red meats.

Trade

Prior to Russia's invasion, Ukraine (being a low-middle income country according to the World Bank classification) was an exporter of expensive chicken parts and whole birds to the world market and an importer of cheap poultry offal for further processing. In 2021, Ukraine became the world's 6th largest chicken meat exporter and 19th largest chicken meat importer. The war did not change this model completely, although both imports and exports declined in the first half of 2022. Due to major logistical problems (mainly on the export side), Ukrainian producers focused on the domestic market a bit more.

Exports

January-February 2022 exports were at historic highs. Ukrainian producers were catching up after the HPAI export problems of 2020-21 and 2022 exports promised to be very significant. The war reshaped everything.

Major Export Routes Change

Ukrainian seaports were completely blockaded by Russia after the war started on February 24th, 2022. Although three Black Sea ports have been re-opened for grain exports in August, poultry products still cannot be exported by sea. Currently, the EU border (and the border with neighboring Moldova) are the only available export routes for Ukrainian poultry products.

In February 2022, exports from all Ukrainian poultry facilities (with exception of those supplying to Moldova itself) became subject to EU transshipment rules. Those rules were updated recently with EU import requirements extended to transshipped products. After swift negotiations with EU Commission, Ukraine and the EU agreed on the uninterrupted exports of products that are not cleared for EU markets in late March. Some restrictions as to transportation routes, containers seals, and paperwork were applied but those did not create major export obstacles.

Removal of Trade Restrictions

To support Ukraine, European nations decided to eliminate existing trade barriers by abolishing all import quotas, putting on hold all antidumping investigations, suspending all countervailing duties, and introducing zero import duty for all products (including sensitive agricultural) originating from Ukraine. Great Britain was the first country to drop all import quotas negotiated under the post-Brexit FTA on April 26, 2022. EU followed with one-year elimination of trade barriers which went into power on July 4th, 2022. The latter temporarily eliminated the EU's 90,000 MT import TRQ that served as the major trade barrier for Ukrainian poultry exports to the EU for several years reshaping Ukraine's exports in 2022-23. On June 23rd Ukraine received EU's candidate-country status but so far it has not resulted in any long-term trade regime change.

Trade Developments

Ukrainian exports quickly recovered after hitting the bottom in March driven by stable domestic production, stalled Russian advances, and strong foreign demand. Ukraine managed to develop loyal markets in the Middle East and the EU, so the return was very quick. Although 2022 exports are expected to be below 2021, the February-April decrease is the only reason for that lower forecast. A favorable EU market regime and streamlined logistics promise even higher exports in 2023.

The elimination of import quotas by the EU resulted in Ukraine's export market preference change. The Middle East lost its role as the major export destination as Ukraine switched back to the neighboring EU. It needs to be noted that non-quantitative and food-safety-related restrictions still remain in place.

While EU market access remains highly regulated, the elimination of import TRQs will result in increased exports of Ukrainian chicken meat to the EU in 2022 and 2023. Export volume is expected to exceed the Deep and Comprehensive Free Trade Area Agreement (DCFTA) zero import duty Tariff Rate Quota (TRQ) and to be comparable to 2019 exports.

Cumbersome logistics made North African and Former Soviet Union markets (with exception of Moldova) less attractive to Ukrainian exporters. Market share of these countries in foreign trade is expected to decrease in 2022-23, but limited exports will continue. Exports are expected to remain diversified with Azerbaijan, Kyrgyzstan, Egypt, Mauritania, Gabon, and Congo (ROC) being the major export destinations. Turkey is likely to become the major transshipment hub for exports to FSU Central Asian countries, while EU ports will be the departure points for Northern and Sub-Sahara Africa.

Imports

Logistical problems associated with transport bottlenecks at Ukraine's western border depressed poultry imports significantly in February-March 2022. Although the problems were encountered by both importers and exporters, Ukrainian exporters suffered the most due to significantly higher shipment volumes. The exporters had no choice but to stockpile their products in available warehouses, distribute them among Ukrainians for free or donate them to charities. Between March and July of 2022, long lines of trucks and dozens of trains waiting in lines at Ukraine's western border forced Ukrainian chicken meat producers to divert some of their export supplies to the

domestic market. This diversion coupled with the consumer number decrease became the main reason for the anticipated chicken meat imports drop in 2022.

Small importers received unexpected support from the Ukrainian government in mid-March of 2022. A small business war support package initiated by the Ukrainian Government and adopted by the Parliament envisioned Value Added Tax (VAT) break for selected small business entities. Unexpectedly, some chicken meat importers were qualified. With this incentive, some poultry imports from the EU subject to DCFTA zero import duty import quota also got a 20 percent VAT exemption and were free of all taxes. The tax breaks were canceled in late July, as the government realized the consequences. However, mid-year imports were higher than expected due to this unintended import benefit. As VAT taxes were reintroduced, poultry imports are expected to decline toward 2022 yearend.

Ukraine’s import needs are covered almost exclusively by EU suppliers. EU’s producers sell premium parts domestically and export poultry offal to Ukraine. This way they find an export market for offal which has almost no market inside the EU and mirrors Ukraine’s production and trade model, but for an affluent market. Chicken meat imports are expected to remain weak in 2022 driven by the war risks, smaller consumption base, lower incomes, and transportation problems. They are expected to recover a bit in 2023 as the Ukrainian industry improves its logistics and returns to the “poor country – rich country” trade model. The Ukrainian economy sustained significant war damage that resulted in a disposable income drop, thus, this trade model will remain attractive in 2023 and beyond.

Statistical Tables

Broiler Meat PSD Table*

Meat, Broiler Ukraine, MT	2021		2022		2023
	Market Year Begin: Jan 2021		Market Year Begin: Jan 2022		Market Year Begin: Jan 2023
	USDA Official	New Post	USDA Official	New Post	New Post
Production	1373	1365	1175	1250	1300
Total Imports	117	117	75	70	80
Total Supply	1490	1482	1250	1320	1380
Total Exports	458	458	360	420	450
Human Consumption	1032	1024	890	900	930
Other Use, Losses	0	0	0	0	0
Total Dom. Consumption	1032	1024	890	900	930
Total Use	1490	1482	1250	1320	1380
Ending Stocks	0	0	0	0	0
Total Distribution	1490	1482	1250	1320	1380

**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