

NATIONAL UNIVERSITY OF LIFE AND ENVIRONMENTAL SCIENCES OF UKRAINE



НАЦІОНАЛЬНИЙ УНІВЕРСИТЕТ  
БІОРЕСУРСІВ І ПРИРОДОКОРИСТУВАННЯ  
УКРАЇНИ

**Ukrainian agricultural products competitiveness on  
European market in time of financial challenges**

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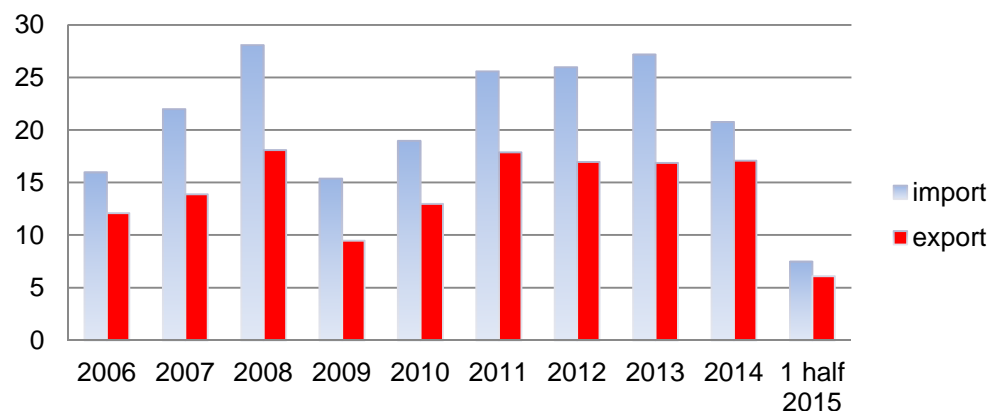
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# Trade development between Ukraine and EU

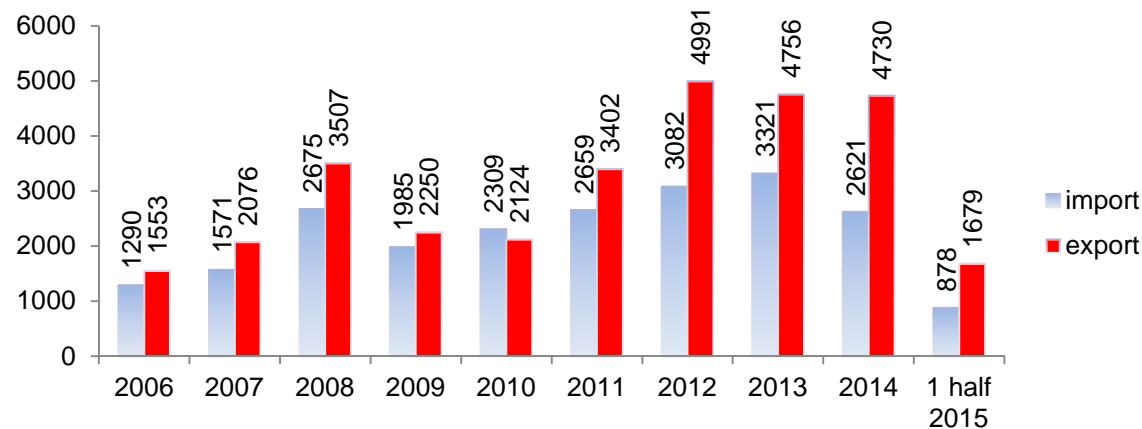
- ▶ European Union has become the major trade partner for Ukraine in 2014. Trade amount comprised 37,9 billion USD, which is 35.6% of Ukraine's overall international trade amount. That includes 17,1 billion USD of export and 20,8 billion USD of import from EU countries.
- ▶ For the first half of 2015 overall export to EU countries comprises 6,1 billion USD, and import from EU is 7,5 billion USD.
- ▶ Among the biggest customers for Ukrainian goods are Poland, Italy, Germany, Hungary, Spain and Netherlands.
- ▶ The major exporters from EU to Ukraine are Germany, Poland, Italy, France and Lithuania.



*Dynamics of overall Ukraine-EU trade, billion USD. Source: State Fiscal Service of Ukraine*

# Agricultural products turnover Ukraine - EU

- ▶ During the period of 2006 - 2014 years the export of agricultural products from Ukraine to EU grew 3 times, and import from Europe increased 2 times.
- ▶ 2014 was the record year for Ukraine, when positive trade balance with EU comprised 2,1 billion USD.
- ▶ Top five trade partners in first half of 2015 were: Spain, Italy, Netherlands, Poland and Portugal - more than 71% of export; and Poland, Germany, France, Spain and Italy - 61% of import.
- ▶ Perspectives of trade development with EU grow Ukrainian potential in grain, oil, meat and milk products production.

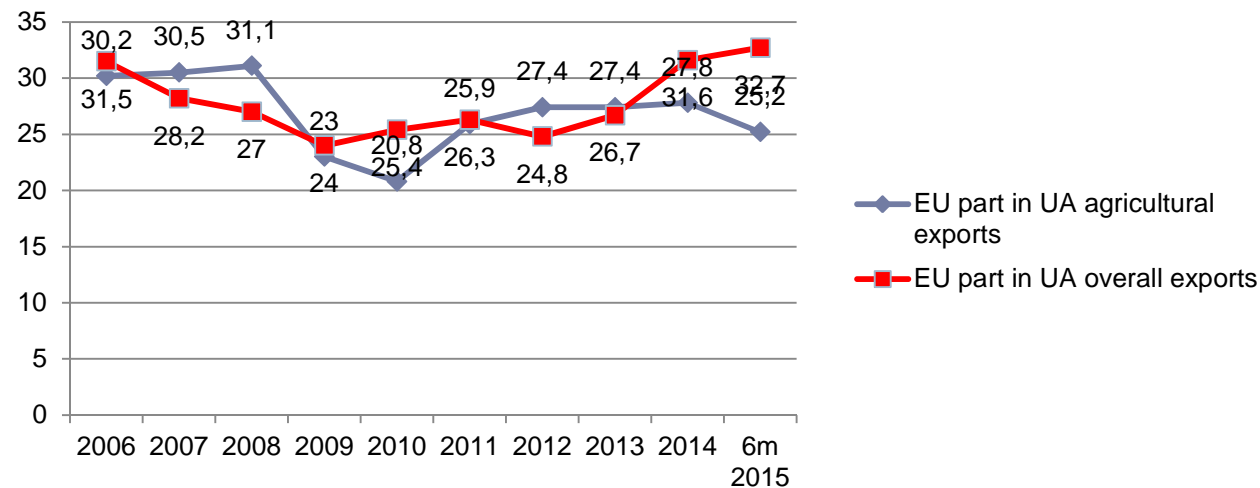


*Dynamics of Ukraine-EU trade of agricultural goods, billion USD.*

*Source: State Fiscal Service of Ukraine*

# Trade development between Ukraine and EU

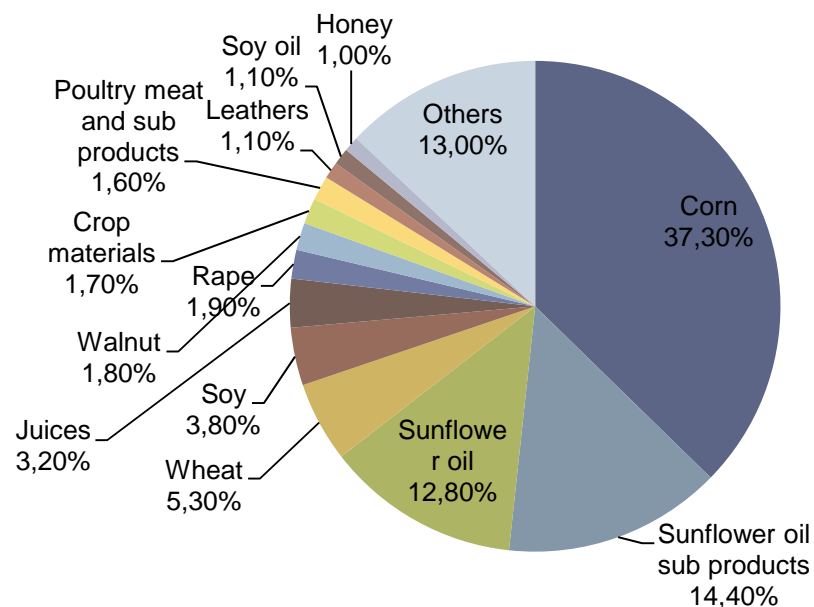
- ▶ Countries, members of European Union, are among the major economic partners for Ukraine.
- ▶ European countries provide major part of agricultural and food products import of Ukraine, which shows growth in last two years. EU part in Ukraine's agricultural import was between 38-39% during 2006-2013 years, and grew to 46.3% as for middle of 2015.
- ▶ Ukrainian export to EU currently has a growing trend after signing Association Agreement with European Union in 2014-2015. At the same time the part of agricultural products stays at the level 26-28% since 2012, after peak level of 30-31% in 2006-2008 and a huge drop to 21-23% during 2009-2010. In spite of growth, overall part of Ukraine in EU's turnover remains very little and comprises about 0.5% of export and 1% of EU's import.



*Dynamics of EU part in Ukrainian export, %. Source: State Fiscal Service of Ukraine*

## Structure of agricultural export from Ukraine to EU

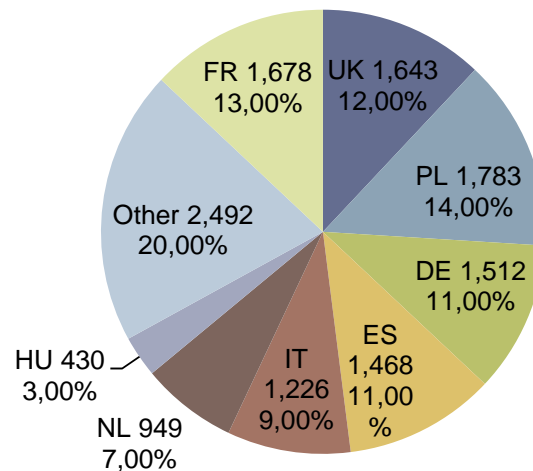
- Overall agricultural export to EU from Ukraine for 6 months of 2015 comprised 1679 million USD. Almost 2/3 of income was made by three types of goods: corn - 37%, sunflower oil - 13%, sunflower oil sub products (oilcake) - 14%.



Structure of agricultural export from Ukraine to EU, %. Source: State Fiscal Service of Ukraine

# Poultry trade between Ukraine and EU

- ▶ European Union is one of the world's major producers of poultry meat and a net exporter of poultry products.
- ▶ In 2014 the 13,1 million tons of poultry meat was produced. The imports comprised 0,8 million tons and exports 1,5 million tons. The self-sufficiency level in European Union was at 103%. The leaders in poultry production are Poland (13,7 %), France (12,7 %), UK (12,4 %), Germany (11,4 %) and Spain (11,1 %).
- ▶ The EU imports mainly from Brazil (60% of total EU poultry meat imports) and Thailand . The average value of imports was 2,59 EUR/kg in 2014.
- ▶ Half of exports are shared between five destinations (South Africa, Benin, Hong Kong, Saudi Arabia and Ukraine). Average exports are -1,37 EUR/kg.



*Percentage of estimated poultry slaughter in the EU28, 2014. Million tons*  
*Source: European Commission*

# Ukraine poultry export structure and destinations

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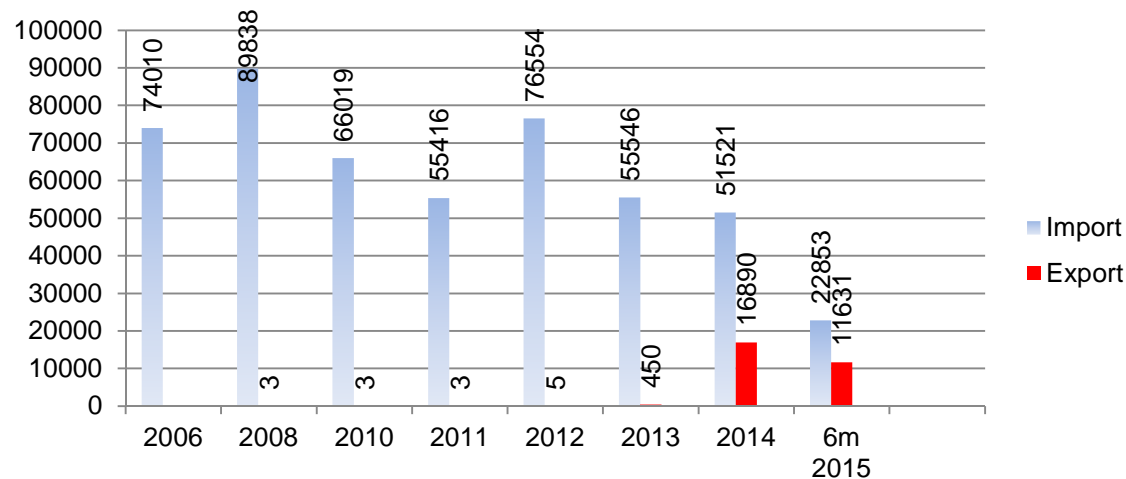
- ▶ For the first half of year 2015 Ukraine has exported almost 10% more poultry meat and byproducts, than during the same period of 2014 - 75,8 thousand ton, the biggest consumers are Iraq, Netherlands and Kazakhstan. Overall export amount comprises 106,4 million USD.
  - ▶ The Russian market remains officially closed to Ukrainian poultry meat exports as it has been since February 2014.
  - ▶ Imports of broiler meat to Ukraine are projected to remain at 60 000 tons in 2016.
  - ▶ The forecast for 2015 Ukrainian exports of broiler meat is around 180 000 tons. Exports of broiler meat are projected to increase to 190 000 tons in 2016. Iraq and the EU are expected to remain the major destinations for Ukrainian broiler meat absorbing up to half of all exports. In January 2016, DCFTA trade preferences for Ukrainian poultry meat entering the EU will replace existing trade preferences the EU has extended to Ukraine on a unilateral basis.
  - ▶ The existing trade preferences unilaterally implement the preferences DCFTA would have provided to Ukraine had it been implemented as originally envisioned in 2014. Ukrainian exporters will have access to a duty-free TRQ of 17600 tons for poultry cuts and offal in 2016.
  - ▶ The EU has also unilaterally made available duty free access for whole birds from Ukraine under a 20 000 tons TRQ. However, industry sources do not expect the whole bird TRQ to be fully utilized given higher costs associated with processing in the EU.
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# Trade between EU and Ukraine. Export.

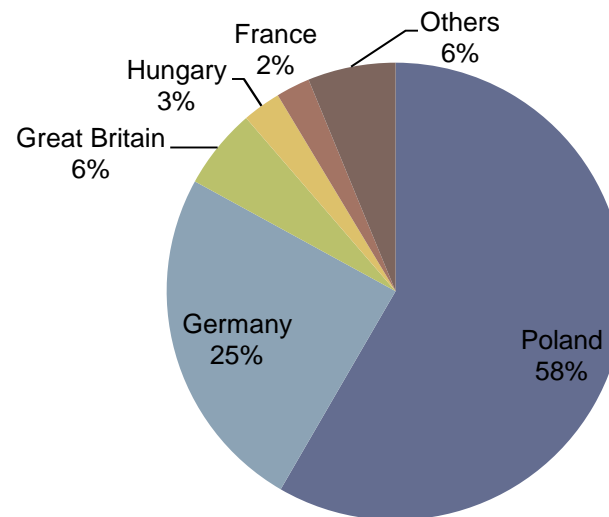
- ▶ During 2006 - 2013 Ukraine exported small amount of poultry and sub products to EU. Signing Association Agreement with European Union, local producers received the quota of 16 000 tons on import of chilled poultry meat and sub products and 20 000 tons of frozen. As the result, in 2014 export raised to almost 17 000 tons, and export income comprised 52.8 million USD. Ukraine's share in European poultry import reached 9.3%.
- ▶ For the first 6 months of 2015 export grew 3.5 times comparing to the same period of 2014, reaching 11600 tons. More than one third of export is fresh or frozen whole chicken and it's parts.
- ▶ Netherlands is the main importer of Ukrainian poultry with 71.3 % of the amount of Ukrainian export. Average price is 3.24 USD/kg. Also, in first half of 2015 Netherlands and Germany purchased about 6200 and 3000 tons of poultry sub products, what comprises about 80% of overall Ukrainian export to EU.



*Dynamics of Ukraine's poultry meat and sub products trade with EU, tons.  
Source: State Fiscal Service of Ukraine*

# Trade between EU and Ukraine. Import

- ▶ Ukraine's poultry import dropped 30% in 2014 comparing to 2006, although it remains on the level of more than 51 000 tons.
- ▶ In first half of 2015 import grew 26,2% as to previous year and comprised 22,8 thousand tons, that mostly included frozen chicken sub products. Since the beginning of 2015 major suppliers of chicken parts and sub products were Poland and Germany (with share of 82,9%). Poland has doubled it's share from 24% in 2014 to 58% this year. Ukraine ended 2014 with negative trade balance of 4,9 million USD for poultry category. And for the first half of 2015 the balance was positive comprising 12 million USD.

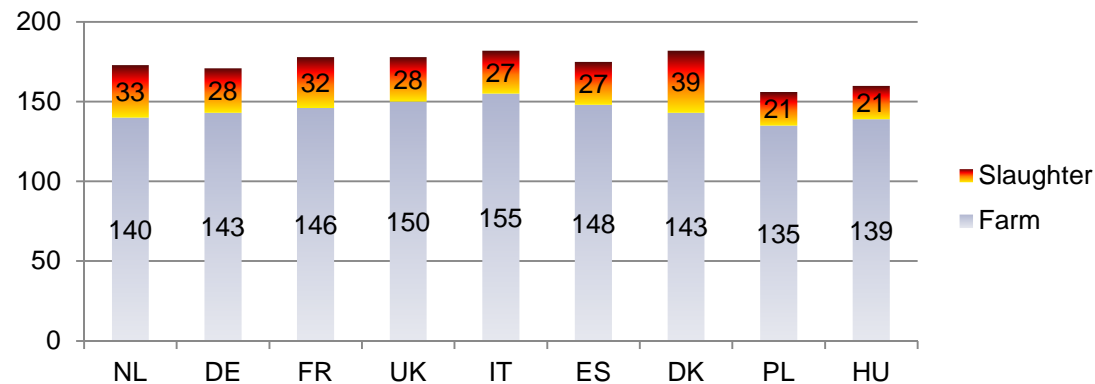


*Geographical structure of Ukraine's poultry meat and sub products import from EU, %.*

*Source: State Fiscal Service of Ukraine*

## Poultry production cost comparison in different countries

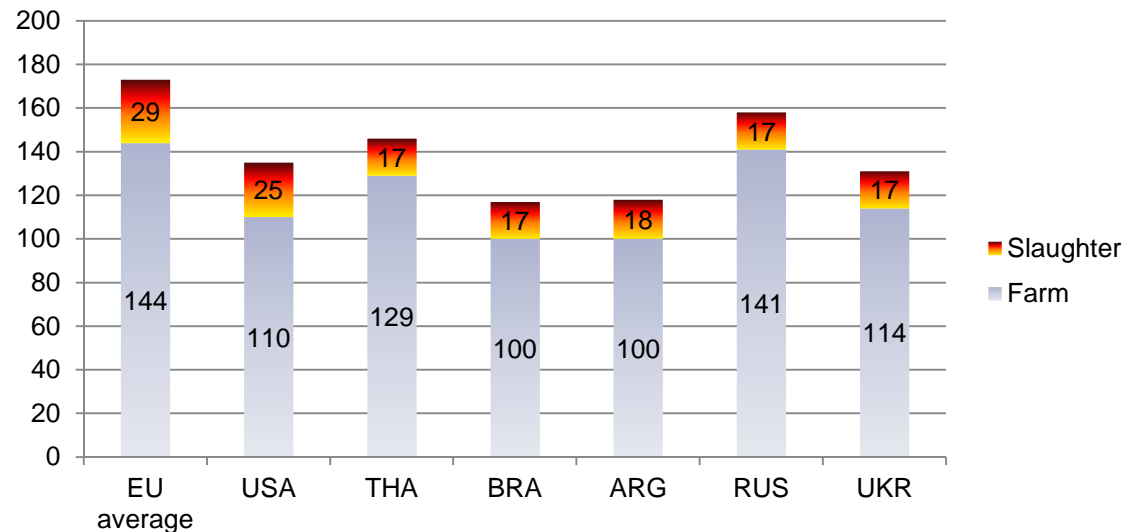
- ▶ Most EU countries have production costs in the range of 91 to 97 eurocents per kg of live weight. This group includes France, Germany, the UK, the Netherlands and Spain. The production costs in Poland are the lowest at 90.2 eurocents per kg of live weight. Italy has the highest production costs with 106.5 eurocents per kg of live weight.
- ▶ The costs of slaughter vary from country to country within EU. The final product is a broiler carcass. The weight of the carcass is 70% of the live weight of the broilers delivered from the farm. The main components in the slaughter costs are labor (30%) and building and equipment (30%). The other costs (40%) are, for example, transport of broilers, energy, water, quality control and offal disposal. These costs vary from country to country.



*Broiler production cost (farm and slaughter) in EU, 2013 data, EUR cents/kg CW*  
*Source: "Competitiveness of the EU egg and poultry meat sector" LEI Report*

# Production costs in non-EU countries

- ▶ The feed price determines the total production costs to a significant extent. The feed price is considerably lower in Argentina, the USA and Brazil than it is in the EU. The lower feed price in these countries can largely be explained by the domestic availability of sizeable quantities of feed ingredients such as maize and soy bean. European producers partly depend on South American imports for their feed ingredients. The costs of storage, transport and margins increases the price of feed ingredients in Europe. The price of day-old chicks is also lower because of the low feed price.
- ▶ Comparing the production cost, we find that the cost in EU is about 47% more than in Argentina and Brazil and 32% more than Ukraine.

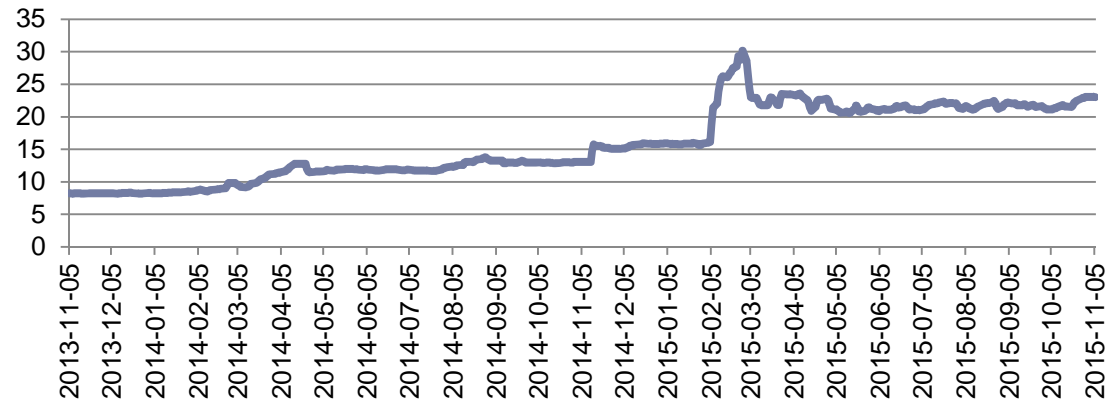


Broiler production cost (farm and slaughter) in non EU, 2013 data, EUR cents/kg CW

Source: "Competitiveness of the EU egg and poultry meat sector" LEI Report

# Financial challenges in Ukraine

- ▶ Right now the financial crisis is going on in Ukraine, which caused local currency drop to USD from 8.00 UAH/USD in January 2014 to 22.00 USD/EUR in July 2015, with short time jumps up to 27.00 UAH/USD within this period.
- ▶ Devaluation creates problems for small and mid size producers, who only sell their products in domestic market, but have to source inputs from abroad (feed additives, veterinary medicine and equipment). The price growth of these imported components together with foreign currency bank loans servicing strike producer's profitability and brings losses.



*USD/UAH exchange rate dynamics since October 2013*

*Source: National Bank of Ukraine*

# Financial challenges in Ukraine

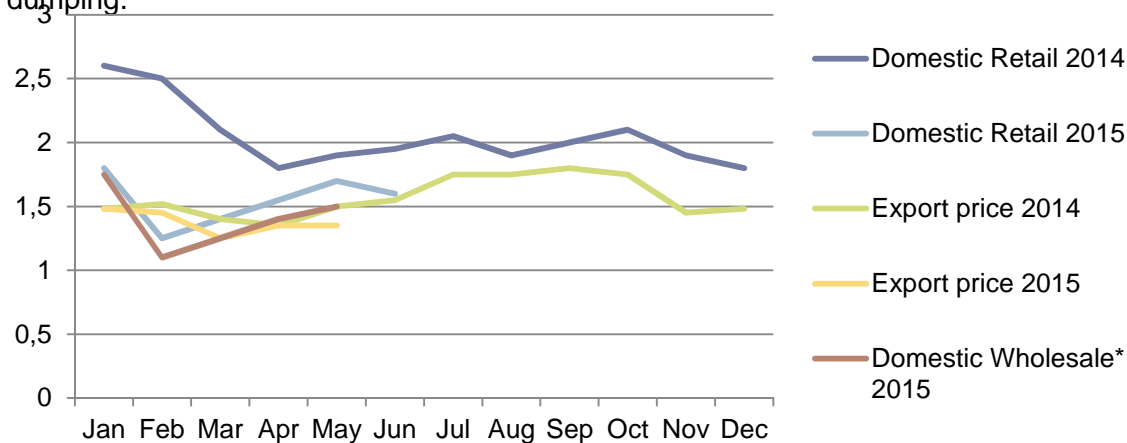
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- ▶ Consumer incomes continue to fall, but domestic poultry consumption remains relatively high and even grew in 2014, as poultry substitutes more expensive animal protein, such as red meat. Comparing the domestic retail price for poultry, we can see that the average consumer price for chicken grew from 21 UAH/kg in January 2014 to 36 UAH/kg as per July 2015. If we divide the price levels by matching exchange rate, we see that the price, nominated in USD has dropped 40% from 2.6 USD/kg in beginning of 2014 to 1.6 USD/kg as for mid 2015. So the market is experiencing real decline in prices. The average producer's price for chicken as for June 2015 comprised 27300 UAH per ton, what is around 1.24 USD/kg.
- ▶ International Monetary Fund projects that inflation will slow to 20% in 2016 from 46% in 2015 and GDP will grow 2% in 2016 after 9% percent decline in 2015 offer some cause for optimism that profitability of the poultry sector will improve. Reflecting signs of improving economic conditions, availability of inexpensive feed from the 2015 crop, and expected stabilization of other input costs, broiler production is projected to increase to 995 000 tons in 2016.



## Ukrainian poultry competitiveness on European market

- ▶ Significant devaluation stimulates export activities and gives advantage to local producers, making cheaper domestically produced inputs, such as electricity, water, bulk feed, labor cost, that make up a large part of the poultry meat self cost. Since the beginning of 2014 the feed cost grew 120%, hatching egg - 162%, energy cost - 131%, what brings the poultry meat self cost up 45%. At the same time the UAH rate has dropped 3 times.
- ▶ Taking into consideration that the production cost in Ukraine is lower than in EU countries, mainly because of cheaper feed inputs that comprise the majority of self cost and lower labor cost, and current in the influence of exchange rate change on the self cost of the produced goods, in time of deep devaluation of local currency, there are economic justifications to the lower producer's selling price.
- ▶ The average export price to EU of 3,24 USD/kg (that's more than 70% of export of Ukrainian poultry to Netherlands). Export mainly consists of proceeded chilled poultry and offal. We shall also note that Ukraine is not using it's quota for frozen poultry.
- ▶ In times of financial turbulence in Ukraine and devaluation of local currency there are no reasons to prove the export price of Ukrainian poultry as dumping.



Domestic and Export prices in Ukraine, USD/kg

Source: USDA GAIN Report (State Statists Service based on Ministry of Economic Development and Trade Surveys; Monthly Average Interbank exchange rates used for 2014 price calculations; WTA data is used for declared export price, FAS/Kiev calculations are used to define wholesale margins (vary widely depending on sales channel)).