

UKRAINIAN POULTRY, EGG & FEED INDUSTRY

Business Outlook Report



Konstantin Chernichkin



SPECIAL REPORT
WINTER 2016

U.S. COMMERCIAL SERVICE KYIV

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The U.S. Commercial Service in Kyiv's Special Report, "Ukrainian Poultry, Egg, and Feed Industry – Business Outlook Report," was developed in 2016 to provide U.S. equipment suppliers with information to consider in assessing the Ukrainian market. This report includes: market overviews of each sub-sector; market insight from small and medium sized producers regarding upcoming performance and modernization plans as well as factors that influence equipment purchase decisions; and finally an overview of Ukraine's macroeconomic indicators and their impact on the poultry, egg, and feed sub-sectors.

Taken together, the information reveals that despite recent and dramatic events in Ukraine that affected the country's safety and overall economic output, Ukraine's agriculture sector has buttressed the economy. In the face of adversity, it exhibited growth, and when traditional trade relationships were cut off, Ukrainian agricultural companies pivoted and found new trading partners and routes. It also shows that Ukraine's entrance to the European Union will stimulate growth and investments in modernization, thereby creating opportunities for U.S. equipment suppliers to enter the market and compete with European equipment suppliers.

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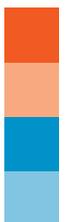
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Irina Trubnikova,
Commercial Specialist, Agriculture
U.S. Commercial Service Kyiv

Welcome to this special report prepared by the U.S. Commercial Service in Kyiv. As an agency dedicated to delivering services and information that ensure U.S. businesses can compete and win in the global marketplace, the impetus for this report was to provide U.S. equipment suppliers with insight into the key agricultural subsectors of poultry farming, egg production, and feed production.

Despite recent and dramatic events in Ukraine that affected the country's safety and overall economic output, Ukraine's agriculture sector has buttressed the economy. In the face of adversity, it exhibited growth, and when long standing relationships ceased, Ukrainian agricultural companies pivoted and found new trading partners and routes.

While there are many trade statistics that explain story of perseverance against all odds, the human side of this story is simple. Ukraine's agriculture sector lies at the heart of the nation's identity – a resource and force that has defined its past, shapes the present, and will propel Ukraine to a brighter future. In fact it is agriculture that will ensure Ukraine's transition to a global economic power. As Ukraine's Minister of Agricultural Policy and Food,

Oleksiy Pavlenko, recently articulated, "Ukraine is a crucial country for the food security of the planet. We are not just a breadbasket anymore, we are a food basket."¹

Perhaps surprising to some who may still associate Ukrainian farming with antiquated Soviet systems of subsidies and artificial supports, today Ukraine's agriculture sector is more self-sufficient than many countries in Western Europe. According to Gilles Mettetal, the European Bank for Reconstruction and Development's Agribusiness Team director, "The success of the Ukrainian farming sector is not coming at a financial price to the state. Unlike many of its neighbors and competitors within the EU, Ukraine has been unable or unwilling to provide costly agricultural subsidies, which has actually made the sector's private companies stronger and more resilient in a crisis."²

Because it is clear that Ukraine's agriculture sector is only at the beginning of a long growth projectory, CS Kyiv invites you to evaluate and consider new trade opportunities in agricultural sub-sectors, such as poultry, egg, and feed processing, that show particular promise and become a participant in driving Ukraine's economic prosperity.

2015 2016

Ukraine's poultry, egg, and feed industries grew in 2015 due to increased export demand, industry consolidation, and recent investments in modernization. Despite Ukraine's economic downturn and Russian trade embargos, the poultry, egg, and feed industries experienced export-driven growth. Producers met increased demand for exports thanks to the economies of scale resulting from consolidation and investment in these sub-sectors.

In 2016, Ukraine's broiler meat production is projected to increase by 3 percentⁱⁱ, meanwhile, the projected real economic growth (GDP) is projected to grow by 1 percent^{iv}. Large vertically integrated poultry producers, assisted by international financial institutions, will continue to expand and increase their market share. This growth will be driven by exports to the European Union (EU), Middle East, and Asia.

New trade agreements, particularly with the European Union (EU), are the key drivers of increased export opportunities. The Deep and Comprehensive Free Trade Agreement with the EU includes the progressive removal of customs tariffs and quotas and the extensive harmonization of Ukraine's laws, norms, and regulations in various trade-related sectors. Over the next five years the DCFTA will radically changes trade flows and volumes of Ukrainian poultry.

Export driven growth in poultry farming will lead to growth in domestic animal feed production, creating opportunities for U.S. suppliers of food ingredients and feed equipment. Market analysts consider investments in high quality feed production as strategic, given the positive projections for domestic and export demand for Ukrainian poultry and egg/egg products. Many food ingredients are currently imported due to relatively lower quality domestic production, but a trend towards import substitution is beginning.

While many poultry meat producers already meet EU standards, harmonization with EU standards will stimulate modernization of egg and egg products production facilities. Ukrainian exporters are required to be able to meet EU requirements for bird care and treatment in order to expand exports to international markets. Additionally, companies are oriented towards exporting value added processed products which have a higher profit margin.

European poultry production and processing equipment suppliers currently dominate the Ukrainian market, but the market is not yet saturated and overall growth will create opportunities for new suppliers over the next five years. Dutch and German companies are heavily linked to poultry operations in Ukraine through the supply of technology, provision of corporate loans, and partnerships in distribution. Competition from European suppliers is likely to increase for a variety of reasons related to Ukraine's pending entrance into the EU.



Agriculture is a strategically important economic sector for Ukraine, accounting for 12 percent of GDP, 31 percent of total goods exported, and 17 percent of total employment. Between 2003 and 2014, value added agricultural production grew by 71 percent. The poultry, egg, and feed industries play an important role in this sector and today Ukraine is the world's eighth largest exporter of poultry and eighth largest producer of eggs.

Even during Ukraine's recent economic instability, agriculture was one of only economic sectors that demonstrated positive growth in 2014. Even though the agriculture sector fared better than other sectors of the economy, production was still negatively affected by the separatist conflict in eastern Ukraine and by Ukraine's poor macroeconomic fundamentals in 2014 and 2015. Significant currency depreciation in particular affected agricultural input usage and domestic investment, as agriculture is highly dependent on imported goods for production.

Despite these recent hardships, agricultural output in Ukraine is expected to continue growing in the foreseeable future. This is due largely to Ukraine's highly fertile black soil, which makes the country a key player in the global food security agenda. With economies of scale and modern technologies, large agribusinesses are expected to make the countryside more productive and turn Ukraine into a net exporter of food. This is particularly true for poultry farming, egg production, and feed production, which are dependent on proximity to sources of grain production.



According to the U.S. Department of Agriculture's (USDA) Foreign Agricultural Service in Kyiv, in 2015 Ukraine's broiler meat production remained stable and is projected to increase by two percent to 995,000 metric tons (MT) in 2016. Similarly, broiler meat exports are projected to increase to 190,000

MT in 2016, up from 180,000 MT in 2015. During this period, large vertically integrated poultry producers, assisted by international financial institutions, will continue to expand and increase their market share. This growth will be driven by exports to the European Union (EU), Middle East, and Asia.

Table 1: Broiler Meat (Production Supply and Distribution (PSD), 000 MT*

Ukrainian Poultry, Broiler Meat Production			
	2014 (market year beginning January)	2015 (market year beginning January)	2016 (market year beginning January)
Production	64.9	80.9	95
Total Supply	102.0	102.1	105.5
Human Consumption	53.8	50.8	65

*Not Official USDA Data. Exports of chicken parts (Ukrainian HS 0207149900) to China, Vietnam and Hong Kong are excluded from exports.

Since the mid-2000s the Ukrainian poultry production sub-sector has rapidly consolidated and integrated vertically, with large industrial meat companies gaining control over their entire value chains - from feed production to processing and retail. For example, from 2005 to 2011 the number of enterprises engaged in poultry production fell from 500 to 200 and during this same period, meat production in Ukraine rose by as much as 39 percent.

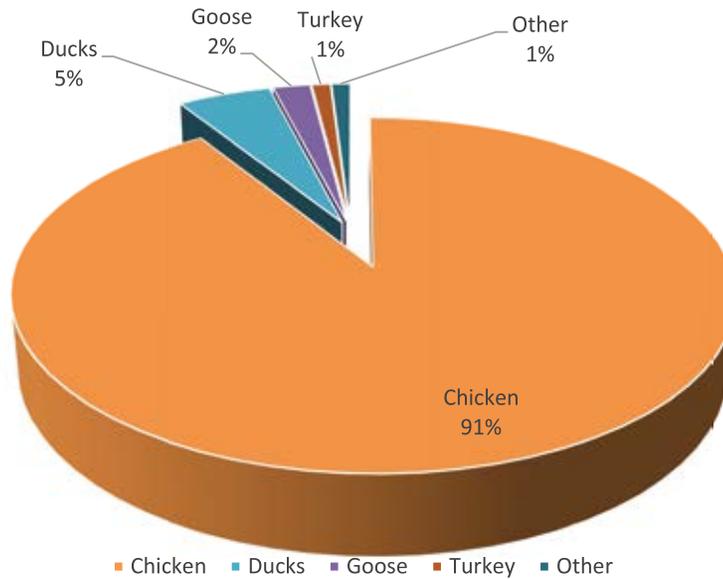
Currently, the poultry sector is the most concentrated of all meat sub-sectors. The top five producers control almost the entire market with 84.5 percent market share. These fully integrated large agribusinesses include; MHP (with 59 percent market share), Agromars (14 percent), Volodymyr-Volynskaya Poultry

Farm (6 percent), and Dneprovskyy Poultry Farm (5.5 percent).

According to Dragon Capital, a leading Ukrainian investment bank, profit margins of Ukrainian poultry producers range between 20 to 35 percent. Their primary expenditures are for feed, which make up between 55 and 70 percent of the total cost of production.

As the table below illustrates, within the poultry production sub-sector, the production of chicken dominates other forms of poultry, accounting for 91 percent of all poultry production in 2014. The majority of poultry production is of fresh or frozen meat. Further processed poultry production (e.g. canned poultry) only accounts for 4.5 thousand tons of processed poultry.

Figure 1: Ukrainian Poultry Production by Type, 2014, Total Production 220.6 Thousand MT



Source: Latifundist.com

| Demand

| Domestic consumption

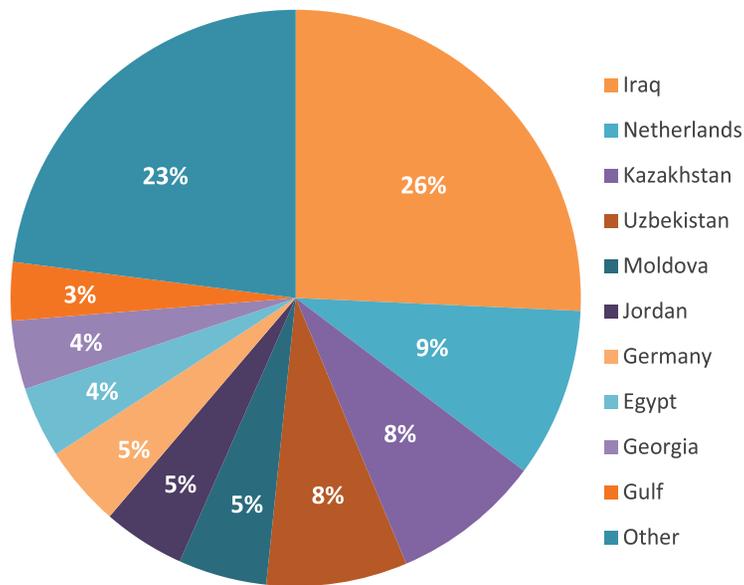
Due to the significant devaluation of Ukraine's currency (the hryvnia or UAH), domestic demand for poultry increased in 2014 and 2015, as consumers turned to more affordable meat options over pork and beef. For example, domestic sales of the market leader MHP grew four percent year-over-year between January and October in 2015, with a spike in sales in the third quarter of 15 percent year-over-year.

Moving forward, the USDA's Foreign Agricultural Service in Kyiv expects domestic broiler meat consumption to increase slightly in 2016 to 865,000 MT. While some contraction is expected to take place in the conflict zone in eastern Ukraine, this decrease will be offset by increased demand in the rest of the country. More specifically, because poultry meat is expected to remain the least expensive protein option, in 2016 reduced consumption in eastern Ukraine will be offset by the substitution of poultry meat for red meat and fish consumption in the rest of the country.



Roughly speaking, Ukraine exports approximately 20 percent of the poultry meat it produces. Between January and October 2015, it exported 137,629 tons of poultry and total exports for the year are projected to reach 180,000 tons. For the period of January to October 2015, the largest consumers of Ukrainian poultry included Iraq (35.4 thousand tons), followed by the Netherlands (13.1 thousand tons), Kazakhstan (11.6 thousand tons), Uzbekistan (11.0 thousand tons), and Moldova (5.9 thousand tons). In addition to this, 16,400 tons of poultry were exported to Egypt, Jordan, Bahram, Qatar, Saudi Arabia, Kuwait, the United Arab Emirates, and Oman.

Figure 2: Destinations for Ukraine’s Poultry Exports in MT, January 2015 - October 2015



Source: Latifundist.com

Due to a number of new trade developments, exports of Ukrainian poultry are projected to increase significantly to the Gulf Cooperation Council countries, China, and the EU.



Gulf Cooperation Council Countries

In 2014 and 2015, Ukraine's major poultry producers received halal certification, which resulted in increased exports to Muslim countries. This upward trend is expected to continue due to the approval of Ukraine's New Economic Policy in December 2014, which envisages that Ukraine will sign a free trade agreement with the Gulf Cooperation Council by 2018. This measure is projected to double exports to Bahram, Qatar, Saudi Arabia, Kuwait, the United Arab Emirates, and Oman by 2020.

European Union

A notable trend in Ukraine's agricultural sector overall is an increase in trade with the EU. Ukraine has become the third largest supplier of poultry to the EU after Brazil and Thailand. In April 2014, the EU granted autonomous trade preferences to Ukraine, which removed customs duties on certain Ukrainian exports including poultry. In 2015, poultry quotas set by the autonomous trade preferences amounted to 16,000 tons of chilled and 20,000 tons of frozen meat.

In addition to this, the Deep and Comprehensive Free Trade Area (DCFTA) agreement, which is part of Ukraine's EU Association agreement, came into effect on January 1, 2016. This agreement includes a framework for market access for Ukrainian goods and services to the EU and vice versa. The DCFTA, which includes the progressive removal of customs tariffs and quotas and an extensive harmonization of laws, norms, and regulations in various sectors, is likely to boost poultry exports to the EU even higher in the future.

Asia

Exports to Asia are set to increase significantly due to a recent agreement between Ukraine and China to further open the Chinese market. Ukraine's State Veterinary and Phytosanitary Service and the Center for Food Safety of Hong Kong reported that Ukrainian producers will be able to export chicken to Hong Kong in accordance with new rules starting December 2015.

Russia

Ukrainian poultry exports to Russia totaled 0.3 metric tons. This miniscule level of trade is due to a Russian ban on Ukrainian exports of meat, milk, and plant products in 2014 and 2015. Exports to Russia will likely decrease further due to Russia's food embargo against Ukraine that became effective January 1, 2016.



| Equipment Suppliers

Due to geographic proximity and aggressive market entry strategies, European poultry production and processing equipment suppliers dominate the Ukrainian market. Dutch and German companies are heavily linked to poultry operations in Ukraine through the supply of technology, the provision of corporate loans, and partnerships in distribution. Competition from European suppliers is likely to increase for a variety of reasons related to Ukraine's pending entrance into the EU. As previously mentioned, the DCFTA, which came into effect in January 2016, will boost trade in goods and services between the EU and Ukraine by progressively cutting tariffs and by aligning Ukraine's rules with the EU's for agricultural products.

| Major equipment suppliers to Ukrainian poultry producers and processors:

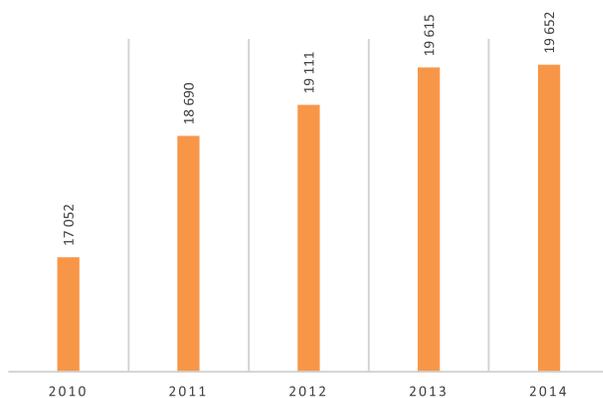
- Nijhuis Water Technology B.V. (the Netherlands)
- Big Dutchman (Germany)
- MOBA (Netherlands)
- VDL (Netherlands)
- Meyn Food (Netherlands)
- Pas Reform (Netherlands)
- CFS (Netherlands)
- Sprout Matador (Denmark)
- Haarslev (Denmark)
- Roxell (Belgium)
- Poultry Tech (USA)
- Buhler AG (Switzerland)
- Provisur (USA)





Over the past five years, egg production in Ukraine grew by 15.2 percent, reaching 19.6 billion eggs in 2014. From January to October, 2015, local production reached 14.6 billion pieces, which represents a 14.8 percent decrease year-over-year.

Figure 3: Ukrainian Egg Production (Millions of Pieces), 2010-2014



Source: State Statistics Service of Ukraine and Union of Poultry Breeders of Ukraine

During the last year, industrially-produced eggs continued to gain market share over household-produced eggs. For example, in the first three quarters of 2015, large agricultural enterprises produced 8.2 million pieces and households produced 6.3 million pieces. For large agricultural enterprises these levels represent a 23.5 percent reduction in year-over-year and for households a 99.9 percent reduction. Today, large agricultural enterprises account for more than half (56.6 percent) of production, versus households that account for 43.4 percent of production. In terms of egg production, Ukraine's industry leaders are Avangard, Inter-Zaporizhzhya, and Ovostar. The recent significant growth in egg production was made possible primarily because of the investments large firms have made in the construction of modern, high-tech poultry farms and complexes.

Table 2: New Poultry and Egg Production Facilities Commissioned in Ukraine by Year

New Poultry and Egg Production Facilities Commissioned in Ukraine							
	2000	2005	2009	2010	2011	2012	2013
Poultry livestock housing (thousands of bird spaces)	45	3 157	158	7 229	5 120	220 647	2 784
Egg production livestock, (thousands)	65	86	372	1 560	220	5 359	1 546
Broiler production livestock (millions)	-	2,3	5,2	13,2	84,9	9	0,2

Source: State Statistics Service of Ukraine

Even though there was a surge in investment in both poultry and egg production facilities in 2012, entrance to the EU will likely stimulate another round of investments in both the poultry and egg productions and processing segments. Because Europe is one of the most attractive and promising markets for Ukrainian poultry producers, EU food safety standards will drive additional investments in modernization.

| Demand

| Domestic

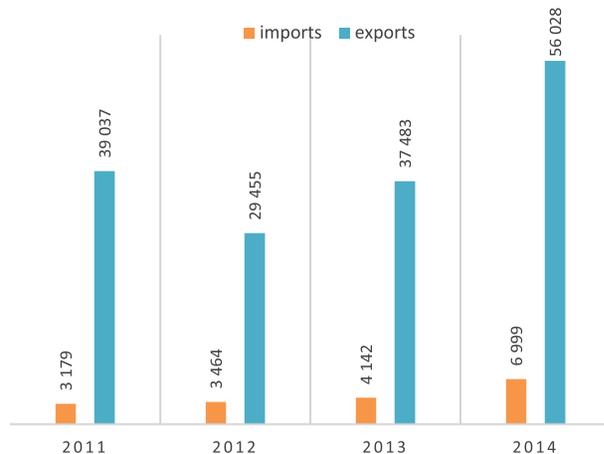
For the last decade, egg consumption in Ukraine has increased steadily, from 209 eggs per capita per year at the end of 2002 to 311 eggs per capita in 2014. While the demand for dry egg product is relatively small, there is potential for growth in this segment because Ukraine's food manufacturing industry is undergoing a transformation to more domestic value-added food products. Even today, most domestic demand for

egg products in Ukraine comes from food processers, with around 80 to 90 percent destined for oil and fat products (e.g. mayonnaise) and industrial patisserie (e.g. cakes, pastries and quiche). The key wholesale customers of egg products in Ukraine are well known corporations like Nestle and Viciunai Group and local confectionery producers like Conti, Roshen, and AVK.

| EXPORTS

Roughly speaking, Ukraine exports approximately five percent of the eggs it produces. In 2014, Ukraine exported 59,000 tons of eggs and egg products to 30 countries. From January to July 2015, Ukraine exported eggs and egg products to more than 24 countries.

Figure 4: Exports and Imports of Ukrainian Eggs (Tons), 2011-2014



Source: Latifundist.com

Figure 5: Exports and Imports of Ukrainian Eggs (Tons), January-June 2014 versus 2015



Source: Latifundist.com

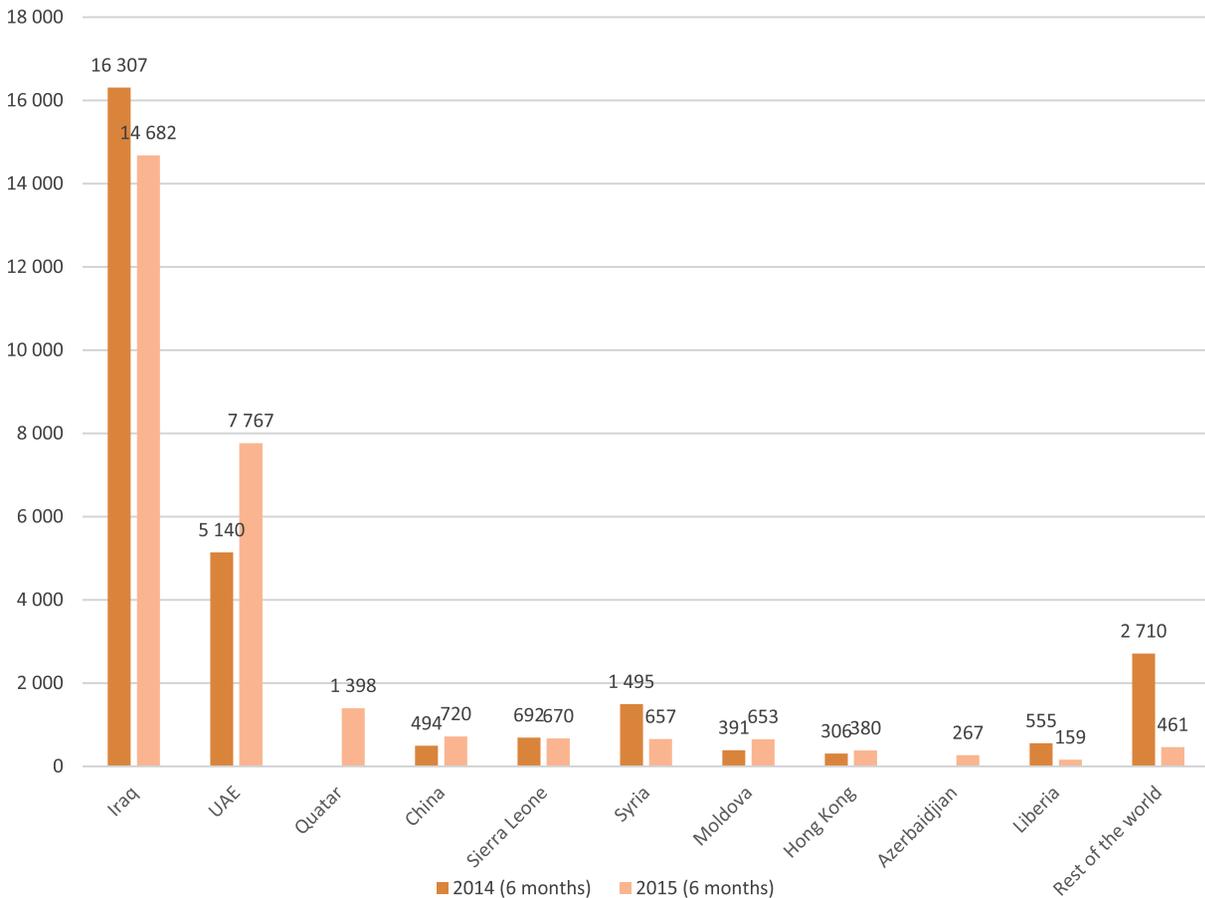
Given the increase in demand for Ukrainian egg products from countries such as the United Arab Emirates, Qatar, Moldova, and Azerbaijan, large Ukrainian egg producers, like Avagard and Ovostar, plan to significantly increase sales of eggs and egg products to foreign markets in 2016.

Avagard is planning a 50 to 60 percent increase in exports and Ovostar is planning a 25 to 30 increase exports. These players believe that growth will come from the existing markets mentioned above, as well as from new markets in the EU, Israel, the U.S., Mexico, and South East Asia. Smaller players are similarly orienting themselves toward exports. For example, Poltava Poultry Farm already exports 20 to 30 percent of its total egg production to African and Asian countries, such as Qatar, Nigeria, Liberia, Syria, Iran, and Turkey.

In August 2015, the Ministry of Agriculture of Israel allowed for the Ukraine duty-free export of eggs. Berezanskaya Poultry and agricultural company Avis obtained a permit from the Israeli veterinarians.

State Veterinary and Phytosanitary Service of Ukraine and the Center for Food Safety of Hong Kong reported that Ukrainian producers will be able to export eggs and egg products in Hong Kong in accordance with newly agreed to rules starting December 2015.

Figure 6: Exports of Ukrainian Eggs (Tons), by Destination, January-June 2014 versus 2015



Source: Latifundist.com



Ukraine received permission to export eggs to the EU in April 2015 and as a result Ukrainian manufacturers expect a gradual increase of exports to the EU over the next three to four years. The reason for a gradual, versus immediate, rise in exports to the EU is because significant investments in the modernization of production facilities is required to meet EU requirements for bird care and treatment. A significant factor in meeting EU requirements includes implementing an effective system of government veterinary control for egg production, including a monitoring program for Salmonella. As of today, two Ukrainian companies, Ovostar and Imperovo Foods, have met EU standards and received permission to export egg products to EU. Between January and June 2015, Imperovo Foods exported approximately 1,000 tons of dry egg products to the EU.

| Equipment Suppliers

European equipment suppliers for egg production and processing currently dominate the Ukrainian market. Similar to the situation for equipment suppliers for poultry production, competition from European suppliers is likely to increase for a variety of reasons related to Ukraine's pending entrance into the EU.

| Major equipment suppliers to Ukrainian poultry producers and processors:

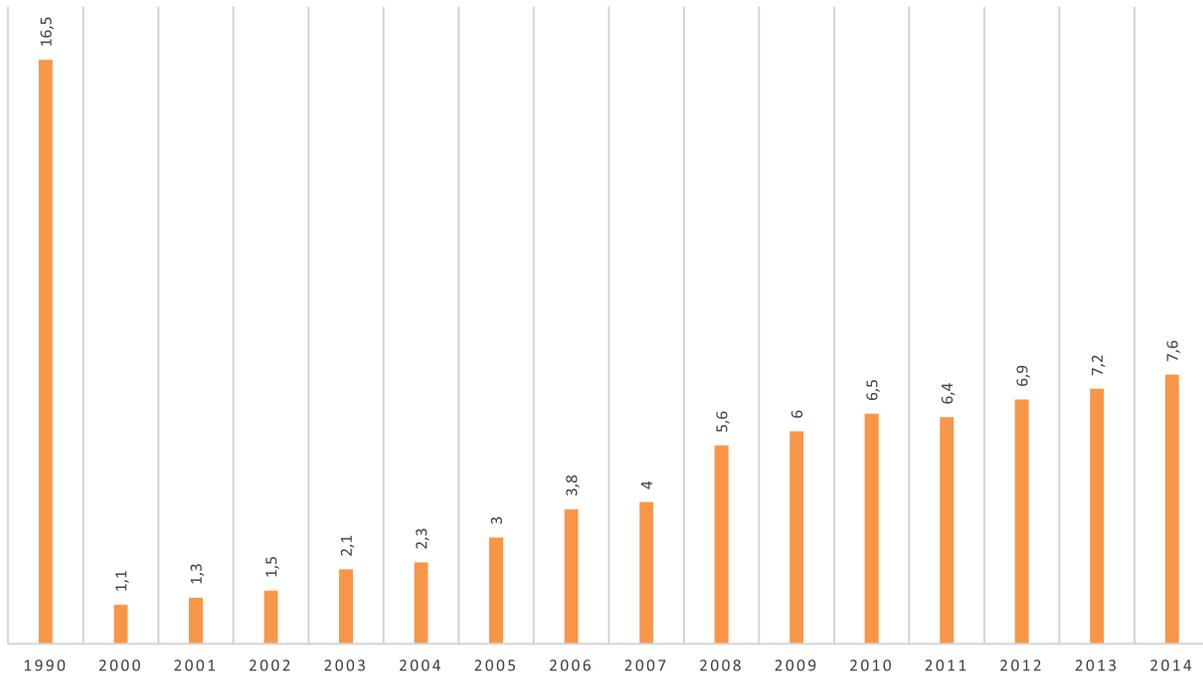
- Salmet International GmbH (Germany)
- Officine Facco & C.Spa (Italy)
- Big Dutchman GmbH (Germany)
- MOBA BV (Netherlands)
- Andritz Feed & Biofuel A/S (Denmark)
- CimBria Unigrain A/S (Denmark)
- Buhler AG (Switzerland)
- Meyn Food Processing Technology BV (Netherlands)
- MT Energie (Germany)
- Bigadan A/S (Denmark)





Even though Ukraine has a long history of feed production, from 1990 to 2000 the feed industry stagnated. This situation began turning around in 2002, when growth in poultry farming increased demands for animal feed production.

Figure 7: Ukrainian Animal Feed Production (Millions of Tons), 1990-2014

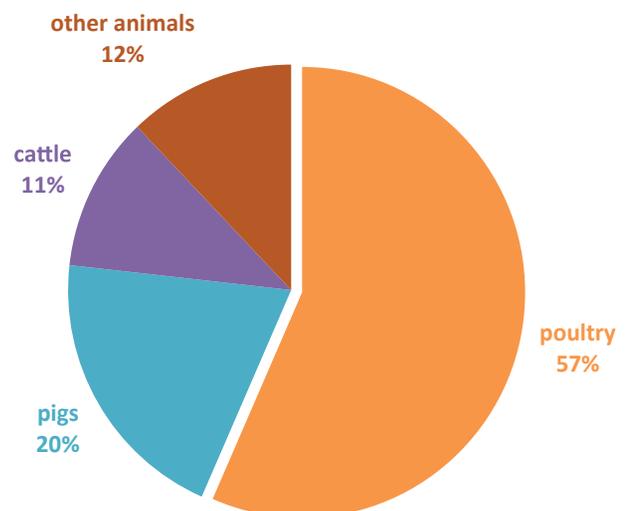


Source: Odesa National Academy of Food Technologies

Today, poultry feed accounts for the majority of feed produced in Ukraine.

Nearly half (47 percent) of all animal feed in Ukraine is produced by large vertically integrated companies for their own use - Myronivsky Hliboproduct (MHP), Complex Agromars, Agro-Oven, UkrLandFarming (Avangard), Inter-Agrosystem, Dnipro Poultry. Thus, feed production of vertically integrated companies is stable and predictable.

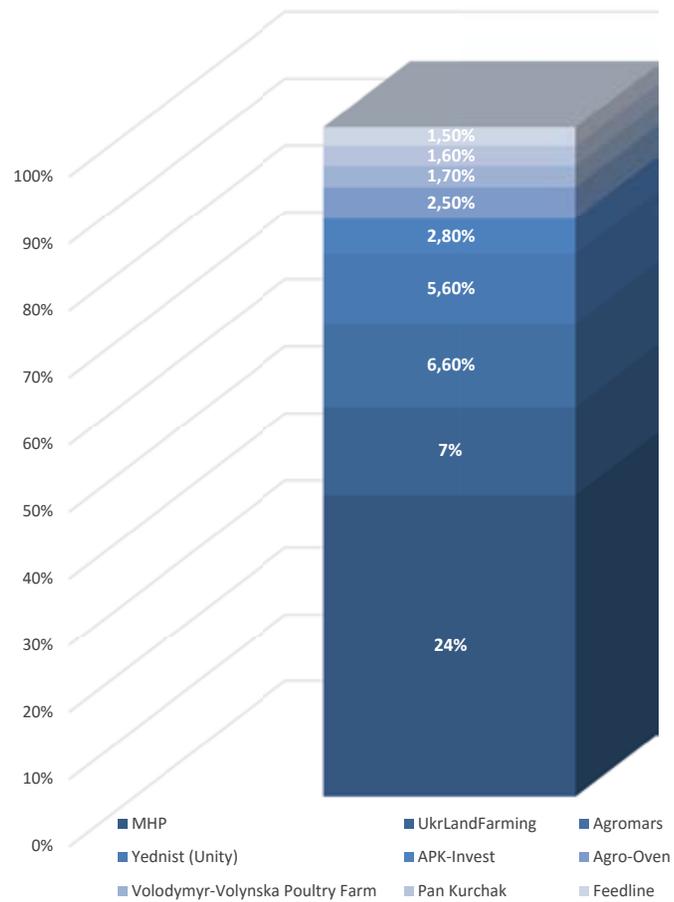
Figure 8: Structure of Ukrainian Feed Production



Source: agrotimes.net

Among enterprises that specialize in the commercial production of animal feed and that are not a part of agricultural holdings, the market leader is Unity (Yednist'). This company owns seven manufacturing companies and its newest facility (opened in 2014) has an annual production capacity of 180,000 tons. Another powerful player in the market is Kyiv-Atlantic Ukraine, with an annual production capacity of 90,000 tons. Other notable players include Tsehave Feed and AgroVetAtlantik. The primary customers of these commercial producers include small and medium sized enterprises (SMEs) and private households that do not have their own feed production.

Figure 9: Market Share of Ukraine's Top Feed Manufacturers



Source:Latifundist.com



Despite Ukraine's economic slowdown, large agricultural holdings continue to invest in operations, including feed production. These investments are viewed as strategic, given the positive projections for domestic and international demand for Ukrainian poultry and egg/egg products. Evidence of this includes a major loan made by the European Bank for Reconstruction and Development (EBRD) in October 2015 to Ukraine's leading poultry and feed producer MHP. MHP will use this \$85 million loan to replenish its working capital related to the cultivation of crops and feed production.

It is important to note that while Ukraine is a large producer of animal feed, it imports many feed components. Vitamins, mineral supplements, and premixes are imported from Europe and lysine and choline chloride are imported from China. Ukraine's major manufacturer of mineral-vitamin feed additives (premixes) for all kinds of farm animals and poultry is NOVACORE. The plant's capacity is 36 thousand tons per year. In view of the anticipated harmonization of Ukrainian feed with EU standards, Ukrainian feed manufacturers are becoming more interested in implementing the safety principles for feed. The GMP (Good Manufacturing Practices) + Feed Safety Scheme certification system will allow Ukrainian manufacturers to certify their ability to produce quality products and to enter the EU and Asian markets. According to the GMP, as of 2014, about 34 Ukrainian companies received GMP + Feed Safety Scheme certification. One impediment to the development of Ukraine's feed market is the low culture of feed consumption by SMEs and private households, a significant number of which use an unbalanced feed diet. Another important obstacle is the lack of a modern regulatory framework and access to existing sanitary and phytosanitary standards and norms. The absence of proper regulation creates obstacles for the export of Ukrainian products to the EU market and other international markets.

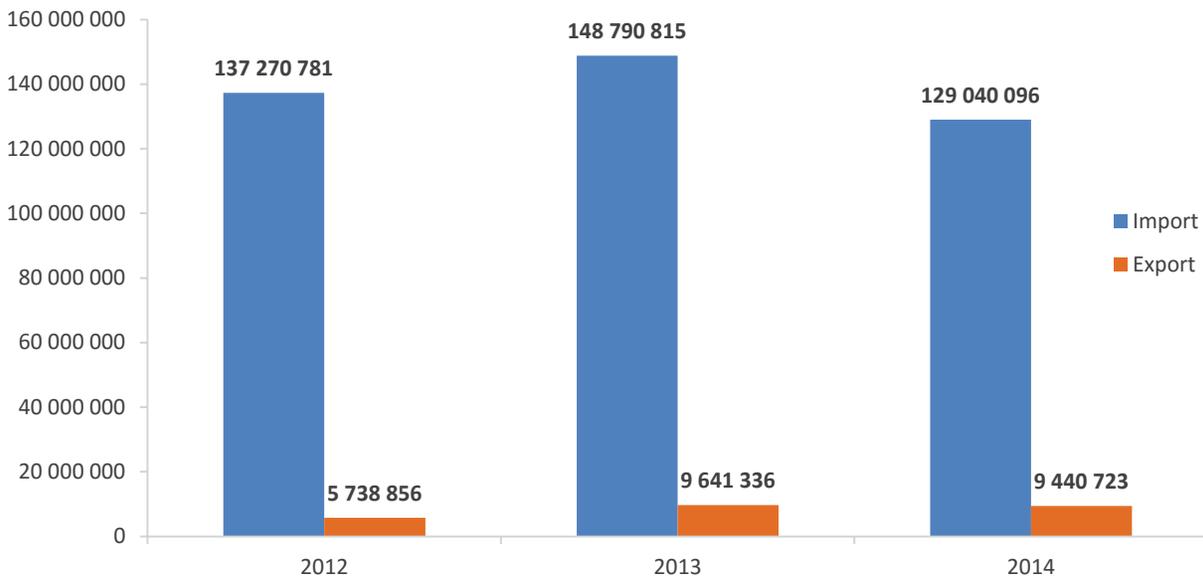


| Demand

As discussed above and illustrated in the figure below, most of the animal feed produced in Ukraine is domestically consumed. In 2014, Ukraine

exported roughly seven percent (18,927 tons valued at \$9.4 million) of the feed, feed additives, and premixes it produced, mostly to Georgia, Moldova, and Belarus.

Figure 10: Ukraine's Import and Export of Animal Feed (USD) Commodity: 230990, Animal Feed Preparations (Mixed Feeds, Etc.)



Source: Global Trade Atlas (State Customs Committee of the Ukraine)

Figure 11: Exports of Ukrainian Feed (USD), by Destination, 2012-2014



Source: Global Trade Atlas (State Customs Committee of the Ukraine)





| Major equipment suppliers to Ukrainian poultry producers and processors:

- Buhler AG (Switzerland)
- Amandus Kahl (Germany)
- Awila (Germany)
- Mogensen (Germany)
- Myunch (Germany)
- Van Aarsen (The Netherlands)
- Ottevanger millingeng (The Netherlands)
- Wynveen International (The Netherlands)
- Andritz Sprout A/S (Denmark)
- Cimbria (Denmark)
- Simatek (Denmark)
- Skiold (Denmark)
- Brock (USA)
- CPM (USA)
- Prokop (Czech Republic)

December 2015

In December 2015, the U.S. Commercial Service in Kyiv reached out to thirteen non-conglomerated companies in Ukraine's poultry, egg, and feed productions industries to gain insight into the market as well as to assess their upcoming equipment needs. Seven of these firms raise chicken, two process chicken, two produce eggs, one processes eggs, and six produce poultry feed. Because Ukraine's large agro holdings already have well established relationships with Western equipment suppliers, CS Kyiv sought the perspective of producers growing and/or processing less than 100,000 tons of chicken per year, less than 500 million eggs per year, and less than 500,000 tons of feed per year (e.g. small to medium sized companies). The annual revenues of these firms range from less than \$2.5 million to \$22 million per year.

| Short Term Equipment Purchase Plans

When asked which types of equipment these companies planned to purchase in the next year, it appears that the segment with immediate equipment needs is poultry production. Six of the seven companies that grow chickens reported that they plan to purchase the following within the next year.

Companies operating in the remaining segments (poultry processing, egg production, egg processing, and feed production) did not consistently report plans to modernize production by purchasing new inputs, equipment or services in the next year.



| Factors Influencing Purchasing Decisions

When asked to rank a variety of factors in terms of their importance to new equipment purchase decisions, the companies to whom CS Kyiv reached out gave the following average rankings on a scale of one to five, where one meant most important:

- Quality (average ranking = 2.3)
- Financing options/package (average ranking = 2.4)
- Price (average ranking = 2.5)
- Servicing via a local office or distributor (average ranking = 4.0)
- Logistics/delivery (average ranking = 4.4)

Industry experts confirm that the availability of financing has been a key factor in European suppliers' success in Ukraine.

| PAST AND FUTURE FINANCIAL PERFORMANCE

In addition to trying to ascertain upcoming equipment needs, CS Kyiv also asked the companies mentioned above about their performance in 2015 and expectations for 2016. Nearly half (55 percent) of the companies CS Kyiv reached out to reported that in 2015 their company's annual revenues stayed the same or increase and the other half (46 percent) reported that revenues decreased.

The keys reasons given for growth in annual revenues were the introduction of new products or services, better general economic conditions, increased exports, and decreased competition. The keys reasons given for decreases in annual revenues were the worsening economic conditions and decreased market demand.

Going forward in 2016, the majority (91 percent) of companies with whom CS Kyiv communicated anticipate that their company's annual revenues will either stay the same or increase. Four companies anticipate up to five percent growth in revenues and six companies anticipate between six and ten percent growth in 2016.



| Key Macroeconomic Indicators for Ukraine

Table 3: Key Macroeconomic Indicators for Ukraine 2011-2015

Indicator	2011	2012	2013	2014	2015 F
GDP. \$ billion	163,4	176,6	182	127,4	98
Real GDP Growth. % yoy	5,50	,2	0-	6,8-	11
Private Consumption. real growth. % yoy	15,7	8,46	,9	-9,6	-17
Consumer Inflation. eop. % yoy	4,6-	0,20	,5	24,9	43,3
Hryvnia Exchange Rate per USD. eop	88		8,21	5,82	4

Source: SigmaBleyzer

| GDP

Despite the depressing trends in Ukraine's macroeconomic indicators, in terms of real GDP, data released in the summer of 2015 suggests that the Ukrainian economy bottomed out in the second quarter of 2015. Following two sharp declines in real GDP in 2015 (17.2 percent year-over-year in the first quarter and 14.6 percent in the second quarter), GDP declined by 7.2 percent in the third quarter and overall it is expected that GDP declined 10 to 11 percent annually. These aggregate figures are supported by data that shows that the economy's lowest point was likely in May, because in June, overall industrial production increased by 1.5 percent on a month-to-month basis, following similar increases in many industrial subsectors in May. These positive monthly growth rates held even after seasonal adjustments. Recent IMF forecasts also predict a small but positive two percent growth in GDP for 2016.

| INFLATION

Despite a Consumer Price Index hike in October related to increases in utility prices, inflation is expected to decrease in the final quarter of 2015. Considering the current dynamics of consumer prices, it is expected that consumer inflation will slow to around 43 percent year-over-year by the end of 2015. Going forward, a business survey conducted by the National Bank of Ukraine shows that inflation expectations have improved, with businesses expecting inflation to decrease to 27 percent by June 2016.



| UNEMPLOYMENT

Ukraine's unemployment rate decreased to 9.6 percent in the second quarter of 2015 from 10 percent in the previous period and the number of unemployed people dropped by 66 thousand. At the same time, the number of job seekers per vacancy increased from nine to ten people. Though high, it is worth noting that Ukraine's unemployment rates have been traditionally high, averaging 8.58 percent from 2003 until 2015. The unemployment rate is expected to peak in 2015 at 11.5 percent and will likely fall to 11 percent in 2016. Additionally, according to the Fund of Compulsory State Unemployment Insurance, the number of Ukrainians who do not have a permanent job is about five million people.

| Impacts on Poultry, Egg, and Feed Sub-Sectors

As described in the preceding sub-sector overviews, despite the bleak, albeit improving economic trends in 2015, the good news for the poultry, egg, and feed sub-sectors is that there is a growing demand for Ukrainian poultry and egg exports. Consolidation in these sub-sectors in the last decade has allowed many Ukrainian producers to weather Ukraine's economic storm and trade embargos with Russia. So much so, that while other sectors of Ukraine's economy contracted in 2015, these industries grew. The devaluation of the hryvnia has also made local production more competitive in comparison with foreign markets.

Despite these positive developments, U.S. equipment suppliers should be aware that due to the overall weakness of the economy, the availability of financing for equipment purchases is scarce. Therefore, suppliers that are able to offer long-term financing plans pegged to the local currency will be at a significant competitive advantage. The reason local currency financing is important is because a series of sharp local currency devaluations in 2015 nearly tripled the prices for foreign equipment and many local producers, especially SMEs selling in the domestic market and generating revenues in local currency, are unable to assume foreign currency risk.





The Ukrainian government, which is seen as “the most reform-minded government that Ukraine has known” by the president of the EBRD, provides a number of incentives for agribusiness companies. Notable reforms and structural adjustments implemented by the Ukrainian government with the support of the international financial institutions (IFIs) are gradually improving the business climate and simplifying business in Ukraine.

One regulatory factor that is a powerful driver of reform in the agricultural sector in particular is the DCFTA with the EU. As mentioned earlier in this report, the DCFTA is the part of Ukraine’s EU Association agreement that came into effect on January 1, 2016. This agreement includes a framework for market access for Ukrainian goods and services to the EU and vice versa. The DCFTA, which includes the progressive removal of customs tariffs and quotas and an extensive harmonization of laws, norms, and regulations in various trade-related sectors, is likely to gradually boost overall exports to the EU over the next five years.

Despite the promises that the DCFTA and expanded trade with the EU hold for the future, the approximation of Ukraine’s legislation to EU standards has been “case-specific.” Many provisions of the DCFTA, such as a harmonization of standards and regulations, have not yet been implemented. This means that there are still significant standards that apply to poultry farms in Europe, but not yet in Ukraine. Examples include the use of antimicrobial growth promoters, meat-and-bone meal in broiler feed, and the absence of environmental legislation. Animal welfare, slaughter and transportation standards are also less strict. Also, producers in non-EU countries, such as Ukraine, have no costs for the disposal of manure. When Ukraine’s standards and regulations are eventually harmonized and implemented, the EU markets will fully open, but the cost structure of production in Ukraine will also change.

| International Financial Institutions

Many IFIs have set up comprehensive advisory programs for the Ukrainian government. Many of these programs include a particular focus on addressing the need for key reforms in agricultural sector.

| International Finance Corporation

The International Finance Corporation (IFC), the private sector lending arm of the World Bank Group, has been present in Ukraine since 1993 and has invested over \$1 billion in Ukraine's agricultural sector. The IFC provides direct financing to large agribusinesses and also works with local banks to provide access to finance for smaller farms.

| EBRD

Since 1996, the EBRD has invested more than €11 billion in Ukraine in a total of 345 projects. Since the beginning of the political upheaval in late 2013, the EBRD has stepped up its engagement in Ukraine's agribusiness sector. In the first nine months of 2014 it signed deals for ten projects with a total value of \$194 million. It focuses its investments on energy, agriculture, and the financial sector. The EBRD claims that all of its clients together employ 200,000 people in Ukraine and contribute to more than \$10 billion of exports each year.

In autumn 2014, the EBRD publicly announced that ten private agribusinesses were willing to invest in Ukraine alongside the bank as part of its Private Sector Action Plan. The EBRD noted that such investments would require changes to regulation related to taxes, import and export laws, and land sales. For its agricultural investments, the bank states that it applies EU environmental and animal welfare standards and expects each project to either comply with these standards or be aiming to comply.



| European Investment Bank

From 2014 to 2016 the European Investment Bank (EIB) committed €3 billion to investments in Ukraine as well as access to finance for small and medium-size enterprises (SMEs). The EIB lists a total of 25 projects on its website in the agribusiness sector, energy, water and waste management and the financial sector.

The EIB operates in Ukraine on the basis of an external lending mandate by the EU as well as the European Neighborhood Instrument, under which the bank manages financial measures to support EU foreign policy objectives. In comparison to the EBRD and the IFC, the EIB is a relative latecomer to the agribusiness sector in Ukraine.

The EIB and Ukraine have signed a Declaration of Intent to finance projects in the agri-food sector in order to help the country benefit from opportunities offered by the DCFTA. In 2014 the bank provided €135 million in agribusiness loans for two large companies, MHP and Astarta.



Acknowledgements

| Business and Industry Associations

The U.S. Commercial Service in Kyiv would like to thank the following organizations for assistance in reaching out to Ukrainian poultry, egg, and feed producers:

Association Poultry Union of Ukraine	www.poultryukraine.com 
Interregional Union of Poultry Breeders and Fodder Producers of Ukraine	www.ptahokorm-union.com
Ukrainian Chamber of Commerce and Industry	www.ucci.org.ua
Vynnytsa Chamber of Commerce	www.cci.vn.ua
Ivano-Frankivsk Chamber of Commerce	www.cci.if.ua

| Survey Respondents

The U.S. Commercial Service in Kyiv would also like to thank the respondents from poultry, egg, and feed community for giving their time to take part in this qualitative research into the sector. Respondents were asked X questions, the highlights of which have been provided in this report.

| Contacts



Irina Trubnikova

Commercial Specialist, U.S. Embassy Kyiv

Email: Irina.Trubnikova@trade.gov

www.export.gov/ukraine 