UKRAINIAN FEED MARKET

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CONTENTS

1. GENERAL CHARACTERISTICS OF THE UKRAINIAN FEED MARKET 7

2. FEED PRODUCTION IN UKRAINE 9

2.1. PRODUCTION DYNAMICS 9

2.2. STRUCTURE OF FEEDS PRODUCTION IN UKRAINE, ACCORDING TO TYPE, PRODUCER AND REGION. 10

3. RAW MATERIALS SECTOR ANALYSIS 19

4. LIVESTOCK FEEDS FOREIGN TRADE ANALYSIS 22

4.1. FEED IMPORTS INTO UKRAINE 22

4.1.1. Livestock feed import dynamics 22

4.1.2. Livestock feed imports structure in Ukraine 22

4.1. LIVESTOCK FEED EXPORTS FROM UKRAINE 30

4.1.1. Dynamics of livestock feed exports from Ukraine 30

4.1.2. The structure of Ukrainian feed exports 30

5. FEED CONSUMPTION IN UKRAINE 36

5.1. FEED MARKET BALANCE 36

5.2. DYNAMICS OF FEED CONSUMPTION IN UKRAINE 37

4.2. THE STRUCTURE OF FEED CONSUMPTION IN UKRAINE 39

6. PRICING ANALYSIS OF THE FEED MARKET IN UKRAINE 40

7. CONCLUSIONS 42

TABLES

TABLE 1.1 STRUCTURE OF THE UKRAINIAN FEED MARKET 8
TABLE 2.1 FEED PRODUCTION IN UKRAINE, ACCORDING TO TYPE: 2007-2009 11
TABLE 2.2 FEED PRODUCTION IN UKRAINE, ACCORDING TO PRODUCER: 2007-2009 12
TABLE 2.3 FEED PRODUCTION IN UKRAINE, ACCORDING TO PRODUCER: 10 MONTHS OF 2010 15
TABLE 2.4 FEED PRODUCTION IN UKRAINE, ACCORDING TO REGION: 2007-2009 17
TABLE 2.5 FEED PRODUCTION IN UKRAINE, ACCORDING TO REGION: 10 MONTHS OF 2010 17
TABLE 3.1 AVERAGE BULK-PURCHASE PRICES FOR MAIN TYPES OF GRAIN CULTURES IN UKRAINE (DEMAND, CPT, UAH/T):2007-2010 21
TABLE 4.1 LIVESTOCK FEED IMPORTS INTO UKRAINE, ACCORDING TO PRODUCT TYPE: 2007-2009 22
TABLE 4.2 LIVESTOCK FEED IMPORTS INTO UKRAINE, ACCORDING TO IMPORTING COMPANIES: 2007-2009 24
TABLE 4.3 LIVESTOCK FEED IMPORTS INTO UKRAINE, ACCORDING TO IMPORTING COMPANIES: 1H 2010 24
TABLE 4.4 LIVESTOCK FEED IMPORTS INTO UKRAINE, ACCORDING TO COUNTRY OF ORIGIN: 2007-2009 26
TABLE 4.5 LIVESTOCK FEED IMPORTS INTO UKRAINE, ACCORDING TO COUNTRY OF ORIGIN: 1H OF 2010 27
TABLE 4.6 FEED EXPORTS IN UKRAINE, ACCORDING TO PRODUCT TYPE: 2007-2009 32
TABLE 4.7 UKRAINIAN FEED EXPORTS, ACCORDING TO EXPORTING COMPANY: 2007-2009 32
TABLE 4.8 UKRAINIAN FEED EXPORTS, ACCORDING TO EXPORTING COMPANY: 1H 2010 33
TABLE 4.9 UKRAINIAN FEED EXPORTS, ACCORDING TO COUNTRY OF DESTINATION: 2007-2009 34
TABLE 4.10 UKRAINIAN FEED EXPORTS, ACCORDING TO COUNTRY OF DESTINATION: 1H 2010 35
TABLE 5.1 UKRAINIAN FEED MARKET BALANCE: 2005-2010 36
TABLE 6.1 AVERAGE BULK PURCHASE PRICES FOR FEEDS IN UKRAINE, EXCLUDING VAT AND TRADE MARGIN, UAH/T: 2005-2010 40

DIAGRAMS

Diagram 2.1 Production dynamics in Ukraine, in volume terms: 2005-2010 9
Diagram 2.2 Feeds production growth rate in Ukraine: 2006-2010 9
Diagram 2.3 Structure of feeds production in Ukraine, according to type, in volume terms: 2005-2010....10
Diagram 2.4 Feed production structure in Ukraine, according to type of produce, in monetary terms: 2005-2010....10
Diagram 2.5 Number of market participants in feeds market in Ukraine: 2005-2009 10
Diagram 2.6 Structure of feed production, according to producer, in volume terms: 2007-2009....13
Diagram 2.7 Structure of feed production, according to producer, in monetary terms: 2007-2009 13
Diagram 2.8 Structure of feed production, according to producer, in volume terms: 10 months of 2010 13
Diagram 2.9 Structure of feed production, according to region, in volume terms: 2007-2009....16
Diagram 2.10 Structure of feed production, according to region, in monetary terms: 2007-2009....16
Diagram 2.11 Structure of feed production, according to region, in volume terms: 10 months of 2010 16
Diagram 3.1 Dynamics of grain crop cultivation in Ukraine 2006/07-2010/11 19
Diagram 3.2 Price dynamics of main types of crops in Ukraine (demand, CPT, UAH/t): 2007-2010....19
Diagram 4.1 Livestock feed import dynamics in Ukraine: 2005-2010....22
Diagram 4.2 Livestock feed import growth rate in Ukraine: 2006-2010 22
Diagram 4.3 Structure of feed imports, according to product type, in volume terms: 2005-2010 23
Diagram 4.4 Structure of feed imports, according to product type, in monetary terms: 2005-2010 23
Diagram 4.5 Number of importing companies and countries of destination in feeds export in Ukraine: 2007-2009....23
Diagram 4.6 Structure of feed imports, according to importing companies, in volume terms: 2007-2009 25
Diagram 4.7 Structure of feed imports, according to importing companies, in monetary terms): 2007-2009....25
Diagram 4.8 Structure of feed imports, according to importing companies, in volume terms: 1H 2010....25
Diagram 4.9 Structure of feed imports, according to importing companies, in monetary terms): 1H 2010 25
Diagram 4.10 Structure of livestock feed imports into Ukraine, according to country of origin (volume terms): 2007-2009....28
Diagram 4.11 Structure of livestock feed imports into Ukraine, according to country of origin (in monetary terms): 2007-2009....29
Diagram 4.12 Structure of livestock feed imports into Ukraine, according to country of origin (volume terms): 1H of 2010 28
Diagram 4.13 Structure of livestock feed imports into Ukraine, according to country of origin (in monetary terms): 1H of 2010....29
Diagram 4.14 Livestock feed exports dynamics from Ukraine: 2005-2010....30
Diagram 4.15 Livestock feeds exports growth rate from Ukraine: 2006-2010....30
Diagram 4.16 Structure of feed exports, according to product type, in volume terms: 2005-2010 31
Diagram 4.17 Structure of feed exports, according to product type, in monetary terms: 2005-2010 31
Diagram 4.18 Number of exporting companies and countries of destination in feeds export in Ukraine: 2007-2009 31
Diagram 4.19 Structure of feed exports from Ukraine, according to exporting company, in volume terms: 2007-2009 33
Diagram 4.20 Structure of feed exports from Ukraine, according to exporting company, in monetary terms: 2007-2009 33
Diagram 4.21 Structure of feed exports from Ukraine , according to exporting company, in monetary terms: 1H 2010....33
Diagram 4.22 Structure of feed exports from Ukraine, according to exporting company, in monetary terms: 1H 2010 33
Diagram 4.23 Structure of feed exports from Ukraine, according to country of destination, in volume terms: 2007-2009....35
Diagram 4.24 Structure of feed exports from Ukraine, according to country of destination, in monetary terms: 2007-2009 35
Diagram 4.25 Structure of feed exports from Ukraine, according to country of destination, in volume terms: 1H 2010....35
Diagram 4.26 Structure of feed exports from Ukraine, according to country of destination, in monetary: 1H 2010....35
Diagram 5.1 Dynamics of feed consumption in Ukraine: 2005-2010....37
Diagram 5.2 Feed consumption growth rate in Ukraine: 2006-2010....37
Diagram 5.3 Dynamics of feed consumption and raw material prices: 2006 - 10 months of 2010 37
Diagram 5.4 Feed consumption and cattle and poultry livestock: 2006 - 10 months of 2010 38
Diagram 5.5 Structure of feed consumption, according to product type, in volume terms: 2005-2010 39
Diagram 5.6 Structure of feed consumption, according to product type, in money terms: 2005-2010 39
Diagram 6.1 Dynamics of average bulk purchase prices for feed in Ukraine, excluding VAT and trade margin, UAH/t: 2005-2010 40

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1. General characteristics of the Ukrainian feed market

AIN Bonus: 1

MPR (manufactured products range). Classifier MPR was approved and put into effect by the order of the State Statistics Committee of Ukraine of 30.08.2002 № 320. Changes to the GMP approved by the orders of the State Statistics Committee of Ukraine of 29.12.2005 № 439, of 29.12.2007 № 477, of 30.12.2009 № 503.
Objects of classification are the products and services created as a result of economic activity, according to types included in sections C, D, E of Standard Industrial Classification of Economic Activities.

AIN Bonus: 2

Nomenclator of foreign-economic activity (NFEA) is used in customs clearance of goods and foreign trade statistics.
NFEA is harmonized with international customs classifications: Harmonized Commodity Description and Coding System 2002 (HS-2002), and Statistical Classification of Products by Activity in the European Economic Community (CN-2003).
Objects of classification in NFEA are products subject to foreign trade.
New version of NFEA was introduced by the Order of Customs Service of Ukraine of 28.11.07 № 1007, and put into effect from 01.01.2008 in accordance with the Law of Ukraine "On Amendments to the Law of Ukraine" On Customs Tariff of Ukraine "dated May 31, 2007 № 1109-V.

Feed — is a dry compound feed, blended from various raw materials and additives according to specific requirements, and is produced for livestock. It is manufactured as either meal type, pellets or crumbles depending on the target animal.

Feed mainly consists of the following components:

- grain (grain and bean family: soya, corn, barley, wheat, oat and others) — 60%;
- oilseed meal of protein containing plants (soya, peas, sunflower, rapeseed) — 20%.

Other (non-grain family) components — 20%:

- Bone and fish flour;
- Herbal flour;
- Dry milk and dried whole milk;
- Yeast;
- Bran and other grain processing residue;
- Beet molasses;
- Pre-Mixes;
- Mineral additives.

Feeds are broken into three types:

- Complete Feeds;
- Concentrated feeds;
- Additional micro-nutrients like proteins and vitamins (PVA).

Complete feeds provide all the daily nutrients minerals and biological components required for a specific animal. Concentrated feeds are designed to be used as additives to other feeds, primarily fed to cattle Micro-nutrients are also used as additives but can be fed to any type of live-stock.

Ukrainian Statistics Body breaks feeds into four groups, according to product classification (MPR) (*AIN Bonus:* 1):

- Ready-made feeds for cattle;
- Ready-made feeds to pigs;
- Ready-made feeds for poultry;
- Other feeds.

The first three types are complete feeds, the last one is a type of complete feed directed at other kind of livestock and consist of protein, pre-mixes, concentrated feeds and micro-nutrients.

Within the scope of this analysis the MPR classification was used as a base. For the analysis of import-export activity of the Ukrainian feeds market the NFEA classification was used (*AIN Bonus:* 2). For the purposes of constructing market balance and domestic consumption, AIN specialists harmonized the MPR and NFEA classifications (*Table 1.1*).

Table 1.1 Structure of the Ukrainian Feed Market

Type of Product	CPA 2002 Product Code	Units	Additional Units	CN 2009 Code	Units (in volume terms)	Units (in monetary terms)	Additional Units
ready-made feeds for cattle	157110050	tons	—	230990	tons	000'UAH	—
ready-made feeds for pigs	157110030	tons	—	230990	tons	000'UAH	—
ready-made feeds for poultry	157110070	tons	—	230990	tons	000'UAH	—
other feeds	157110090	tons	—	230990	tons	000'UAH	—

Source: Calculations and Analysis of AIN

Feeds production – is part of grain processing in Ukraine, and is the link between grain cultivation and livestock, and is thus completely dependent on both sectors. Livestock sector in Ukraine has been showing signs of decay since early 90's. Headcount reduction combined with a transformation of the sector from large-scale to small privately owned farms have led to a long lasting crisis of feeds production. It has dropped from a staggering 16.5 mil. Tons in 1990, to 1.1 mil. tons in 2000. As a result, Ukrainian feeds production can be characterized as one with excessive production capacity, which lies in the range of 12-18 mil. tons a year. These consist of large-scale and small scale production facilities, which utilize around 30% of their capacity, according to some market participants. The only exception are the large agricultural complexes which have been formed in Ukraine over the last 5-10 years. These are generally vertically integrated, self-sufficient enterprises which work at full capacity and can even exhibit lack of production capacity.

Starting from 2002-2003, feeds production started showing signs of recovery, largely due to recover in aviculture, and according to AIN data amounted to 5.85 mil. tons in 2009. Today, the Ukrainian feeds market amounts to 15 mil. tons in physical terms or more than 16 mil. tons in feed units[1]. Domestic consumption, however, only amounted to 5.9 mil. tons in 2009. This discrepancy is the result of extensive use in animal feeding raw grain.

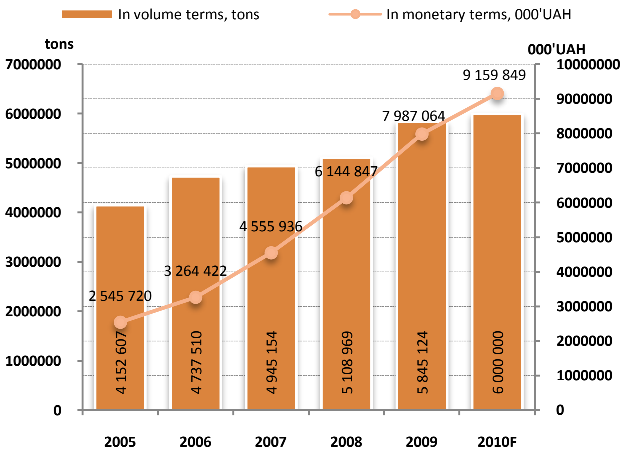
Foreign trade in feeds in Ukraine is largely undeveloped. Exports amount to 0.5% of domestic production and are not geographically diversified (largely consisting of a few countries on ex-USSR region – Moldova, Georgia, Russia and Belorussia. Imports amount to 1% of domestic consumption and mainly come from EU – Poland, Germany, Hungary and others.

[1] Feed unit — a nutrition measurement unit, generally equal to fat generating equivalent of 1kg of dried oats. The amount of fat that results from consumption of feeds by cattle, 150g or 1414 calories.

2. Feed Production in Ukraine

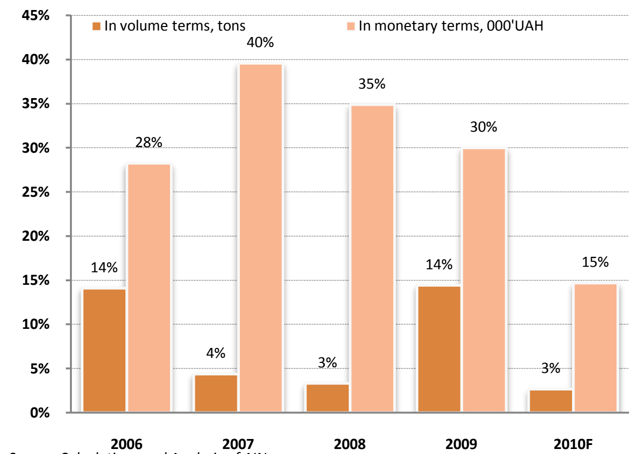
2.1. Production Dynamics

Diagram 2.1 Production dynamics in Ukraine, in volume terms: 2005-2010



Source: Calculations and Analysis of AIN

Diagram 2.2 Feeds production growth rate in Ukraine: 2006-2010



Source: Calculations and Analysis of AIN

Following the stagnation of feeds production in Ukraine during the 90's, the market started to show sign of recovery, exhibiting modest growth annually (*Diagram 1.1*). This was largely caused by an impressive growth in poultry and pig headcount in Ukraine. The latter being attributed to large investors coming into the market and regenerating pork farming. During the investigation period of 2005-2009, domestic feeds production has grown by over 40% in volume terms and by 4 times in monetary terms. It's worth noting that production growth rate was very volatile, with growth rates dropping from 14% in volume and 28% in monetary terms in 2006 down to 3% and 35% respectively, in 2008 (*Diagram 1.2*). The volatility is explained by high dependency on internal consumption, as a result of underdeveloped exports. Internal consumption in turn, is dependent on raw materials prices. The linear relationship between domestic consumption and raw materials prices, together with inelastic relationship between the two, can be traced in the (Feeds Consumption Dynamics in Ukraine) part of this analysis. which in turn has a linear dependency on raw materials prices, and domestic livestock headcount, as well as underdeveloped exports.

Despite the world financial crisis, domestic production showed impressive growth rates. According to our data, production of all types of feed in 2009 grew by 14% in volume terms and 17% in monetary terms. All in all, 5.86 mil. tons of feed were produced in 2009, which amounted to 7.98 billion UAH [2]. The 2009 production increase was caused by an increase in consumption, i.e. domestic livestock headcount, which was in turn caused by a drop in price of the fodder.

In 2010, production growth rates dropped once again, during the 1H of 2010, growth rate amounted to only 6%. In the beginning of the 2H of 2010, grain prices rose again, and although market participants state that other raw material's prices (e.g. amino acids, feed ferments) stayed the same, the rise in grain prices was sufficient to cut down production and consumption.

Consequently, towards the end of the first 10 month of 2010, production growth rate amounted to only 3%, as compared to the same period a year earlier. Our experts, forecast production growth rate to drop to 2.6% in volume terms and 12% in monetary terms by the end of the year. Furthermore, we expect the price rise in 2010, to adversely affect consumption and production in 2011, with production dropping by 3% in 2011. Having said that, it's the small feed producers (3-5 tons/per day) which are likely to reduce production the most, with the largest market participants (200-1150 tons/ per day) likely to increase production.

[2] Monetary value of feeds produced, in bulk purchase prices, excluding VAT.