



UKRAINIAN FEED MARKET

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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.

- 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*).

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;



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 units¹. 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.

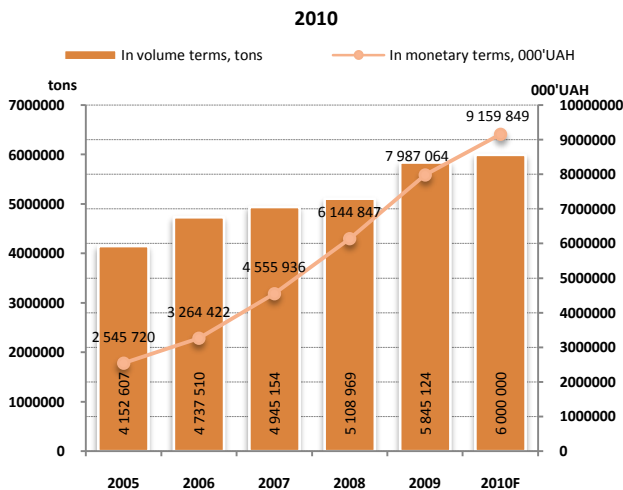
Foreign trade in feeds in Ukraine is largely undeveloped. Exports amount to 0.5% of domestic production and are not geographically diversified (largely consisting of a few countries on ex-USSR region – Moldova, Georgia, Russia and Belorussia. Imports amount to 1% of domestic consumption and mainly come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

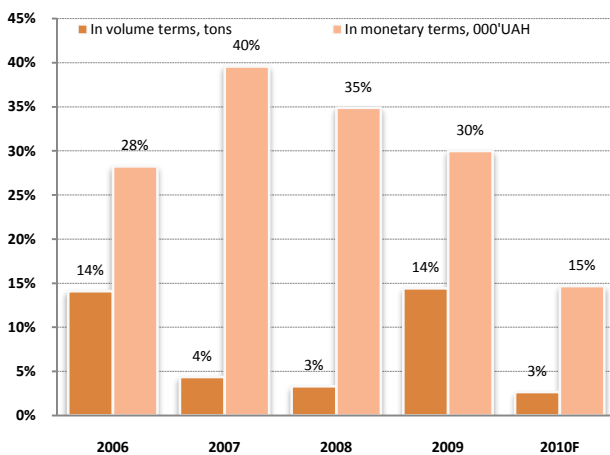
2.1. Production Dynamics

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



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.