


BULLETIN #2



 Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

FiBL


SAFOSO


**ENTREPRENEURSHIP
AND EXPORT
PROMOTION OFFICE**
STATE INSTITUTION

 **Дія Бізнес**

 **infagro**

DAIRY EXPORTS DURING THE WAR

Special information bulletin produced by Infagro analytical agency in the frame of the set of expert discussions for dairy exports support and promotion during the war

June 1, 2022

General tendencies

Russia's war against Ukraine did not begin on February 24, 2022. It has been lasting since 2014. And before that there had been the trade "milk wars" and "cheese wars". However, then Russians did not cause such troubles to Ukrainian economy, in particular to its dairy sector, as they did this spring.

The war has made especially big impact on Ukrainian dairy exports. The developed logistics supply chains to traditional markets of the post-Soviet countries were broken. It is now impossible to load goods through Ukrainian seaports to deliver to foreign countries. Generally, importers are cautious about any procurement deal with a country at war. As a result, despite the promising world market conditions, domestic producers have had to drastically reduce exports, while often selling products well below world prices.

Ukrainian producers lost the Russian market long ago. This market was very comfortable for them. Now they are losing the markets of Central Asia and the Caucasus because of the war. Extremely problematic are exports by sea to the countries of Southeast and North Asia and Africa, where previously large quantities of milk powder, whey, and in some years, butter were shipped.

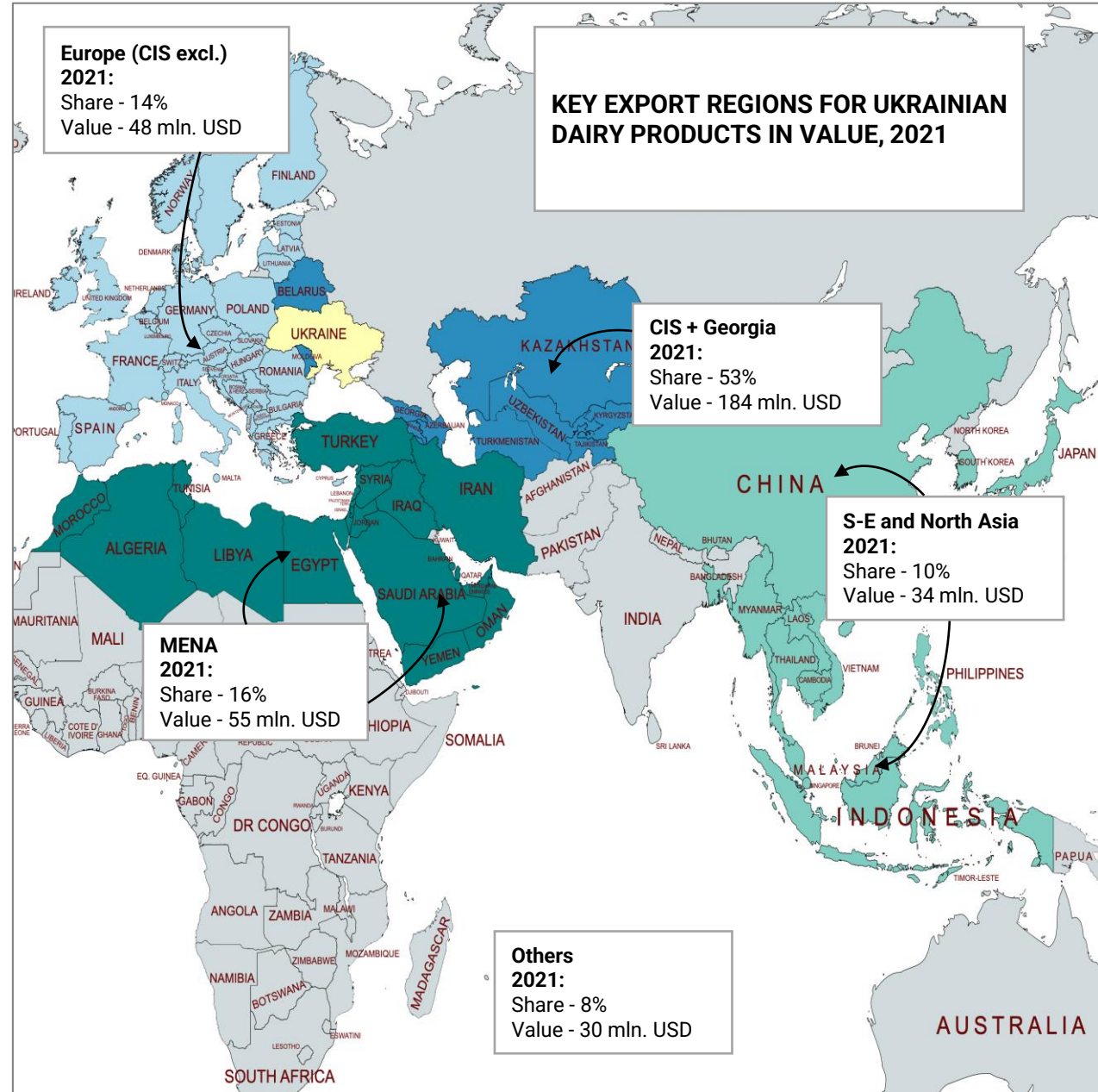
There is an urgent need to find ways to solve the problems of export logistics to restore the normal milk balance in the country. The state support is urgently needed.

Much attention is now being paid to resolving grain export problems. The issue is really very painful. But given the economic efficiency of trading the products of high added value, which export of dairy products are, dairy exports are more reasonable.

At present the best solution for Ukrainian exporters is to establish exports to the European Union. Such deliveries are not related to problematic shipping. The EU gives Ukrainian dairy exporters a great chance to enter their market by abolishing all quotas and tariffs for a year. It should be reminded that earlier, within the framework of duty-free quotas, Ukraine could export annually only 3 thousand tons of butter, 5 thousand tons of milk powder and 10 thousand tons of fresh dairy products and canned food.

For the victory Ukraine's economy must get strengthened. Dairy sector, including dairy exporters, need to be more involved in this process.

GLORY TO UKRAINE!!!



Export's structure and geography

Prior to the 2014 war, Ukrainian dairy farmers were not very concerned about finding new markets outside CIS. Although there were already some problems, the main market players preferred to trade primarily with Russia. At that time, this country was very dependent on imports of dairy products and this was used by Ukrainian producers. The quality of products was not very important, and the price was almost always higher than the world.

In 2014 Russia annexed Crimea and started occupation of Donbass. Simultaneously they declared a trade war on Ukraine and all other "unfriendly" countries that supported Ukrainian sovereignty at the time. Then import of Ukrainian, European (and not only) dairy products was banned. Of course, the resumption of exports to this country is impossible.

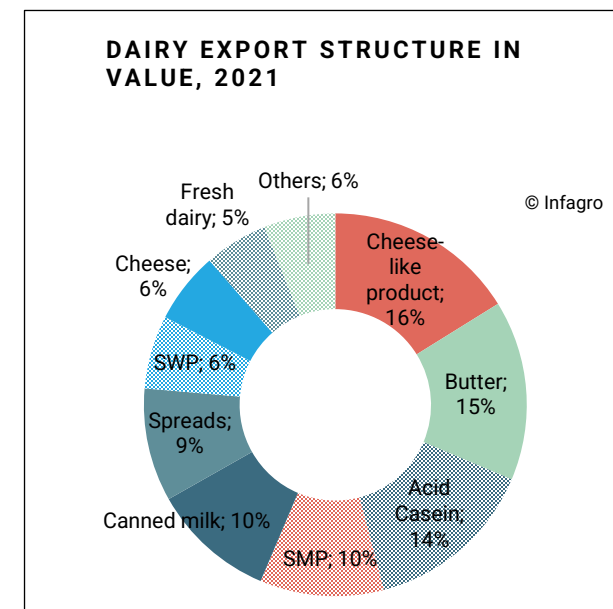
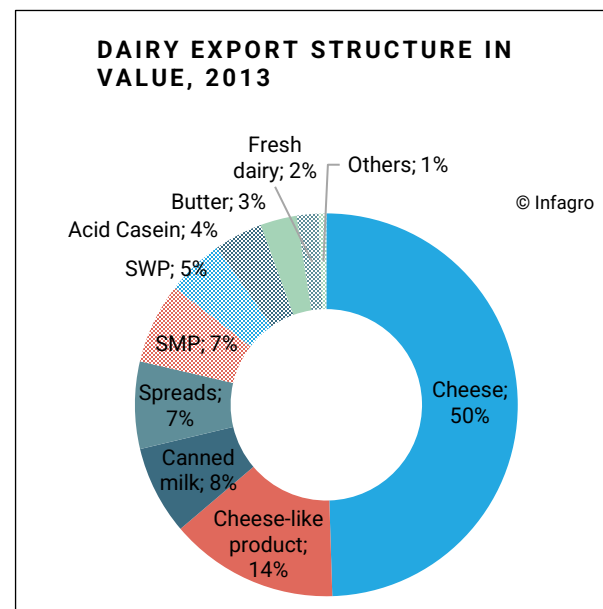
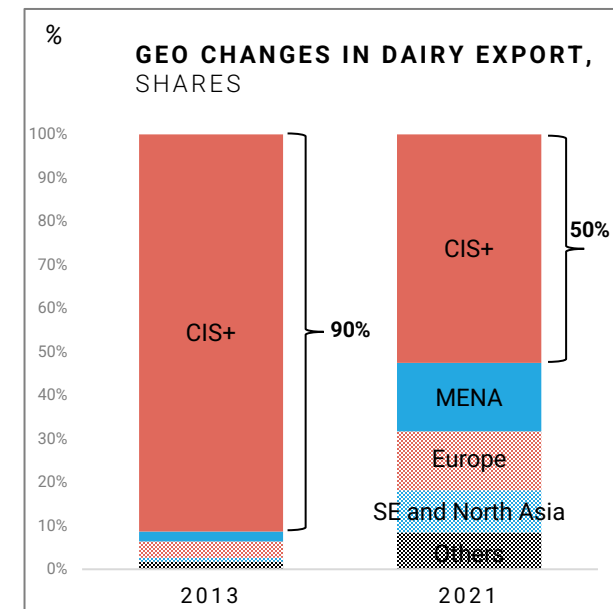
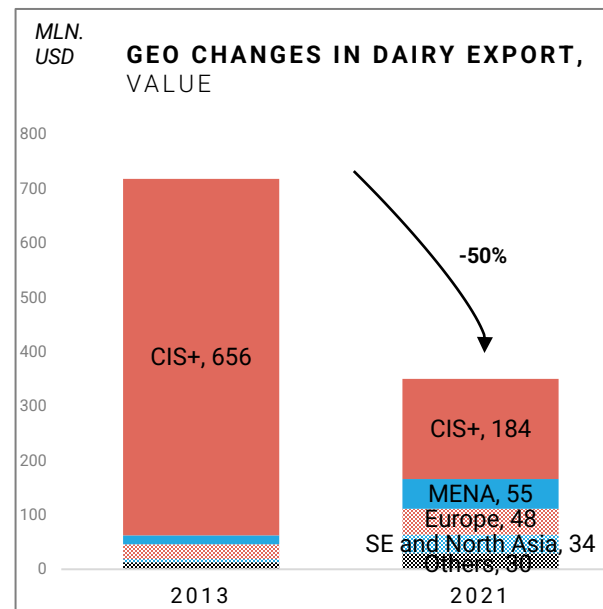
With the loss of the market in Russia, domestic producers were forced to radically change the range and geography of exports.

Previously, most companies focused on cheese and cheese product, the lion's share of it was directed to Russia. When this market was lost, it was quite complicated to find another markets for this produce. Ukrainian cheese was not like others, it was different, and most importantly, in the world markets it was non-competitive in price.

Ukrainian producers had to reduce cheese production and redirect raw milk to production of the alternative export-oriented dairy products. These were mostly butter and related products - skimmed milk powder and casein. That is, domestic dairy production returned almost to the trade structure we had at the beginning of the zero years.

However, until recently, the lion's share of dairy products was still exported from Ukraine to the post-Soviet countries. At present, such supplies are extremely limited due to logistics problems caused by the war. For example, to deliver butter or cheese to Kazakhstan, a refrigerator (20 tons) must travel through five countries in about 50 days (round trip) and the cost of this operation will be 13000-16000 USD / ton, or 600-800 dollars per ton. Before the war, it was twice as cheap and took three times less time.

Therefore, now it is extremely difficult for Ukrainian suppliers to compete in the markets of Central Asia and the Caucasus. Manufacturers are forced to look for new markets and accept that earnings from export operations will be lower.



Butter

About 15 years ago Ukraine was among five largest world countries exporting butter. Having the opportunity to earn a lot from cheese supplies to Russia, producers began to pay less attention to production of butter. In certain periods it was more profitable even to import it. As a result, production of butter had significantly shrunk, and exports became meager.

Since the beginning of the war the situation has changed dramatically. Dairies began to produce more cheese products, not cheese, as cheese products could be exported in large quantities. Production of skimmed milk powder and casein also increased due to significant growth of butter production. Ukraine had a large surplus of butter that had to be exported. This is what butter producers coped with successfully, they increased exports in times. In 2017-2018, exports of butter exceeded the mark of 30 thousand tons.

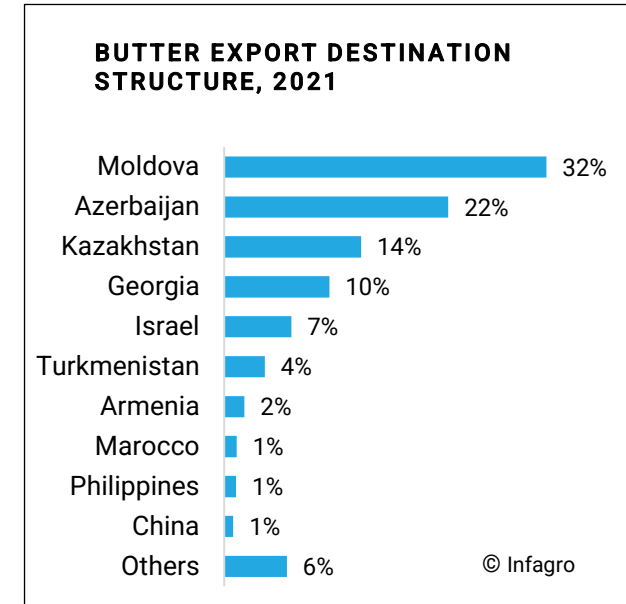
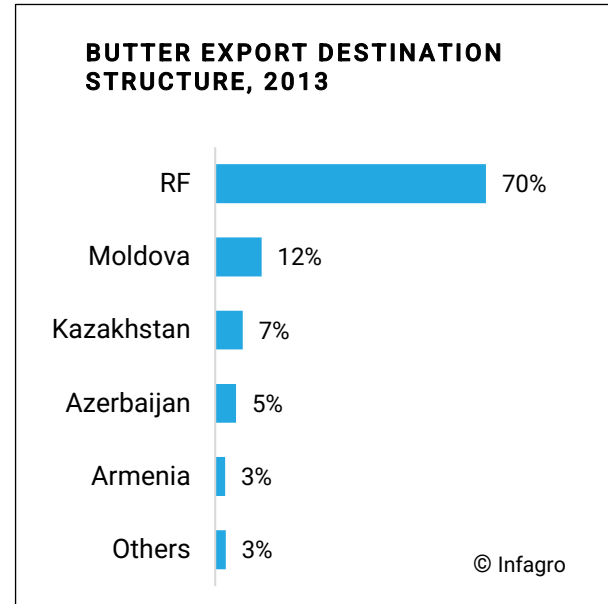
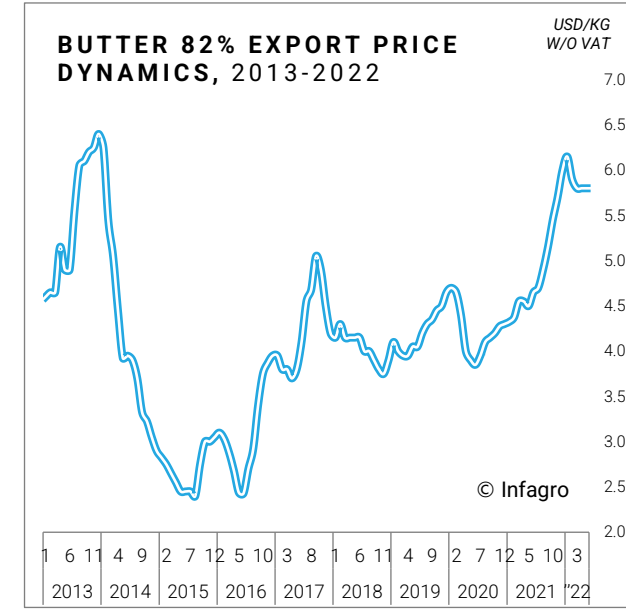
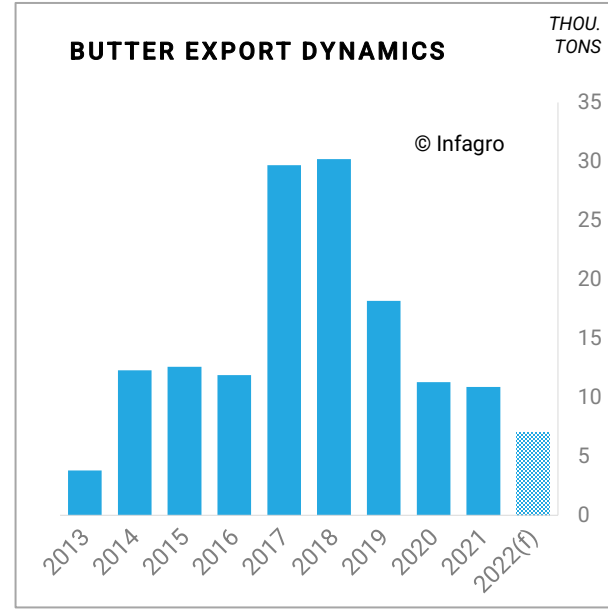
However, the success did not last long. The supply of milk for industrial processing decreased and also wide opportunities for cheese exports have been lost. Butter production declined and consumption increased. As a result, exports of butter had to be significantly reduced. In 2020 and 2021, only 11 thousand tons were exported. Moreover, butter imports increased significantly and almost equaled exports.

This year, butter exports will fall even more because of the lost opportunities to sell butter in the majority of the post-Soviet countries and the complicated logistics structure for delivery to another countries.

It should be noted that previously the main part of butter exports was in the CIS countries. Large deliveries to foreign countries (mostly Morocco, Egypt, Turkey) were active only in 2017-2018, when production was large and the world prices high.

Butter exports to Africa and the Middle East are possible this year, but they will not be large due to complex logistics and low demand in the region.

We hope that the main butter supplies will be made in the countries of the European Union, which has abolished all quotas and duties on imports of Ukrainian goods.



Skim milk powder

In the 1990s and 2000s, Ukraine was a strong player in the world milk powder market. Annual sales was exceeding 50 thousand tons. But then there was a lot of milk in Ukraine. Later, when everyone got actively engaged in cheese making, production of skimmed milk decreased and exports fell significantly.

It was only when the opportunity to supply cheese to Russia was lost, that skimmed milk powder production was resumed and exports increased. In 2014-2017, 29-34 thousand tons were sold abroad. This level has not been maintained for a long time. In recent years, Ukraine exports only 13-16 thousand tons. Ukraine simply lacks raw milk for larger volumes.

This year, despite the decline in raw milk production and huge logistics problems, milk powder production and exports may even increase. Processors simply have nowhere to use the excess raw milk, which is freed, first of all, due to cheese producers. We assume that about 15 thousand tons of SMP will be exported from Ukraine.

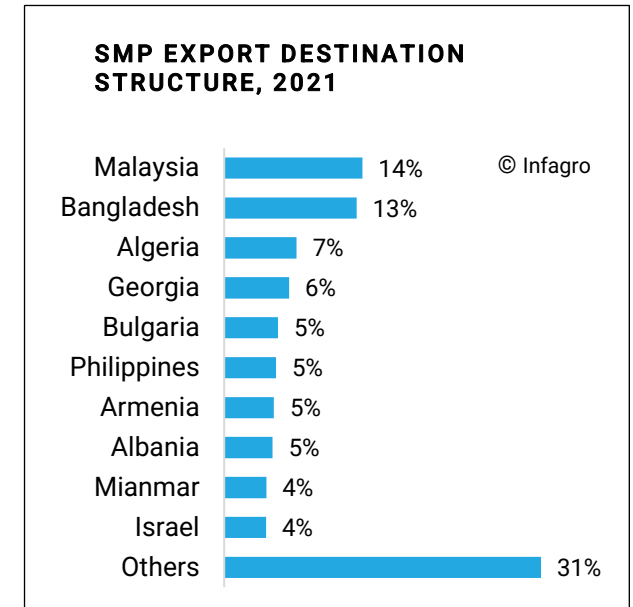
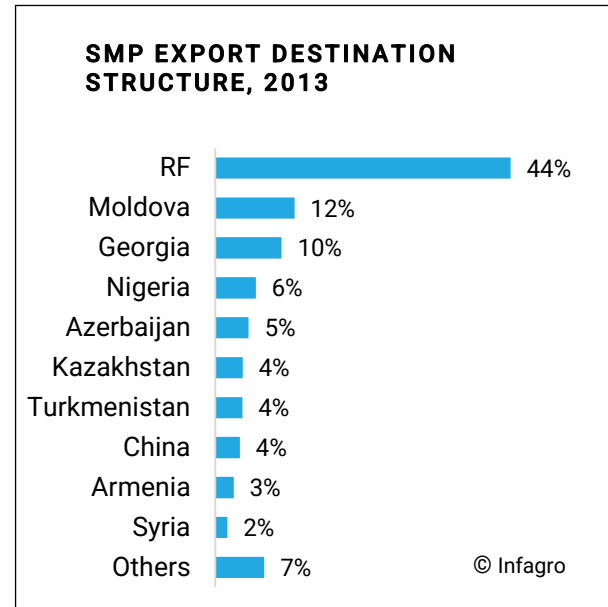
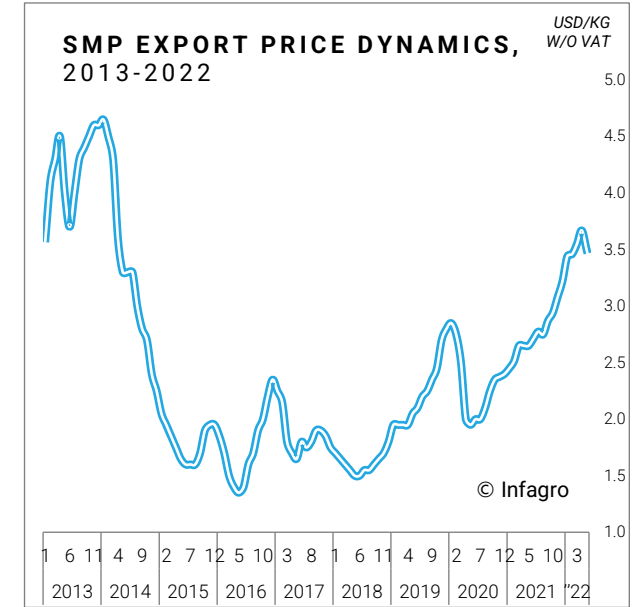
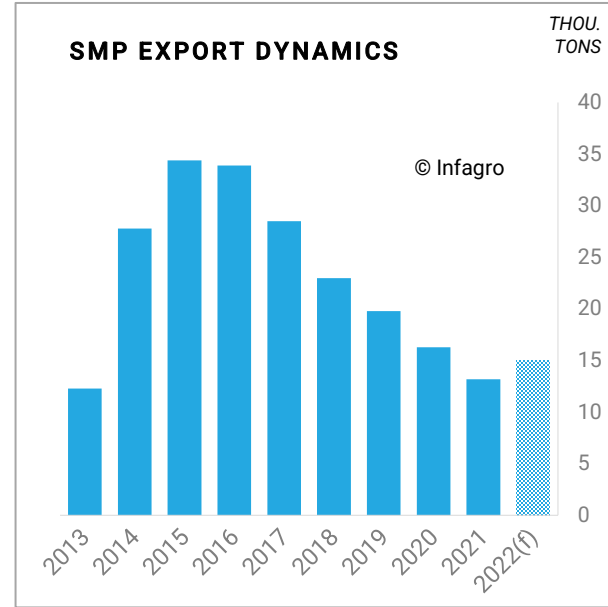
Before the war, significant amounts of milk powder were exported to CIS countries, including russia. However, unlike cheese or even butter, the product has always been sold also to many countries around the world. Significant volumes were supplied to Southeast Asia, Africa and the Middle East.

Currently, deliveries in these regions could also be quite active, but there is a need to send goods by sea containers. And there are huge problems with this due to the blocked Ukrainian Black Sea ports by russian invaders.

Only small volumes of milk powder can be exported by trains or road container trucks to the ports of Romania or Poland. Sales to post-Soviet countries will soon be limited and only small volumes of exports to Moldova will be left. The skim milk powder is not that expensive goods to ship it a long logistics route in Central Asia or the Caucasus. There it simply will not withstand price competition with goods from belarus and even russia.

There is hope that the new logistics and shipments to MENA countries and Asia will be developed.

For businesses that have already been licensed for exports in the EU it is worth to use the opportunities to supply their goods in the EU, which is simpler in terms of logistics and possibly more attractive in terms of prices.



Casein

However, in 2014 the war caused the adjustments to be made in this market. Ukrainian dairies began to resume casein production and, accordingly, in five years have increased exports 2.7 times to 8 thousand tons in 2018.

Later, due to the shortage of raw milk, producers became less interested in casein production. But this year, exports are sure to grow, perhaps even to record levels for many years. We assume that about 8.5 thousand tons of casein can be exported. There are two reasons for this forecast: record high prices and favorable export geography.

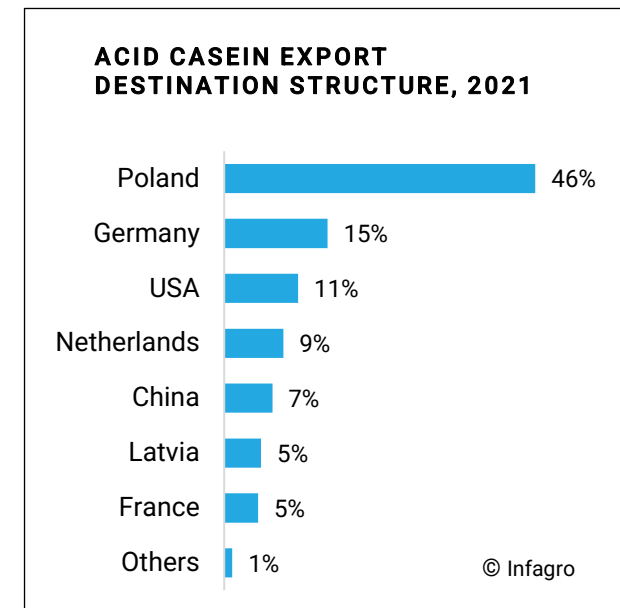
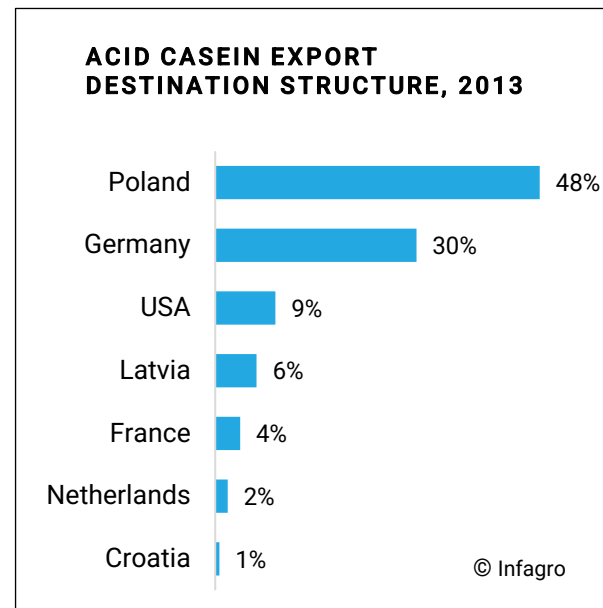
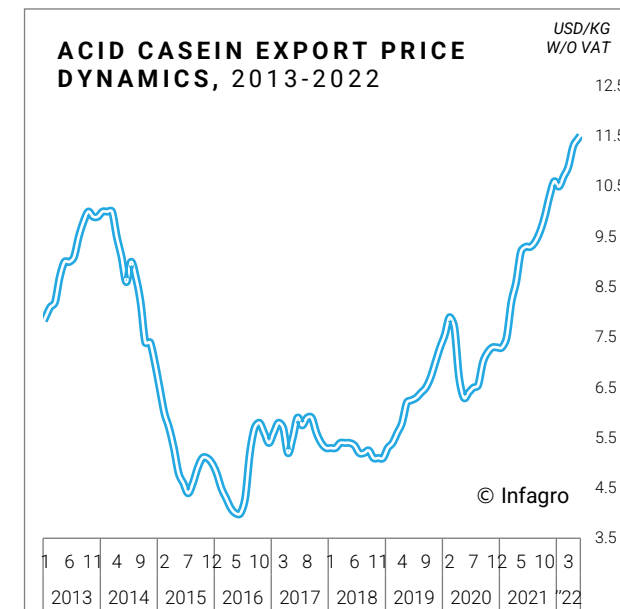
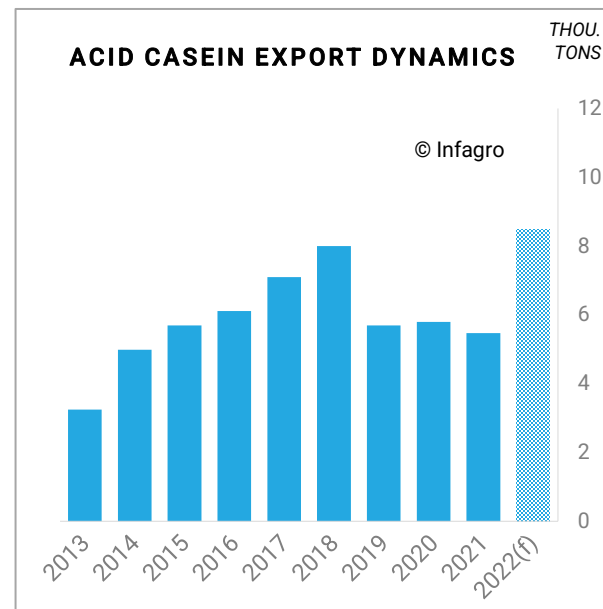
Export prices for casein now reach 12,000 USD/t, which is twice as much as in the same period last year. At the same time, traders pay 3-4 thousand less for it than for acid casein in Europe. Therefore, the importer can afford even expensive logistics.

Casein sellers have hardly suffered from the current logistics crisis, also because the goods are exported by conventional trucks by land. After all, mostly European companies are buying goods, mostly those from neighboring Poland.

Only up to 20% of total casein exports are subject to container shipping for deliveries to the United States and, more recently, to China. But due to the high cost of goods, importers will not save much and do order a container truck for delivery to the ports of Gdansk or Klaipeda.

It should be reminded that for casein supply to the EU, Ukrainian producers are not required to certify their production capacity, unlike other dairy products, because Ukrainian casein is classified as technical. Therefore, any dairy plant can work with Europe on this product. Unlike in Ukraine, no one in the EU can produce casein from the point of view of the environment protection, where all casein serum must be subject to additional processing or proper disposal, which is quite expensive.

It should also be noted that almost 100% of casein produced in Ukraine is subject to export. Therefore, Ukrainian plants will be active only when world prices are high, the domestic market cannot compensate for this.



Dry whey

Whey is a commodity that must be produced in any market situation, as it is directly dependent on the activities of cheesemakers.

Domestic consumption is limited, so for a normal balance about half of the whey produced must be exported. The largest volumes of whey were being sold abroad in 2017-2018, when cheese producers were very active. In recent years, due to a significant reduction in manufacturing of cheese and cheese product, production of whey has decreased, and exports have also reduced.

This year, whey exports may be halved for many reasons including logistical problems. This product is relatively inexpensive and the cost of logistics load per ton of product is particularly high. In such conditions traders, even if they agree to buy Ukrainian whey, offer a price much lower than the world price.

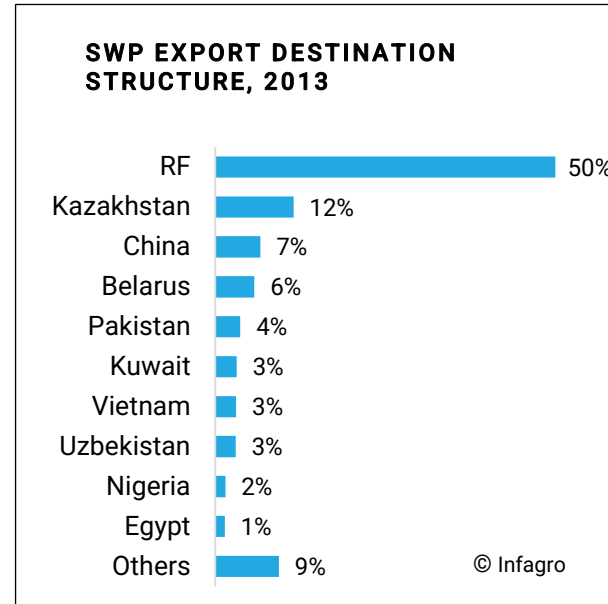
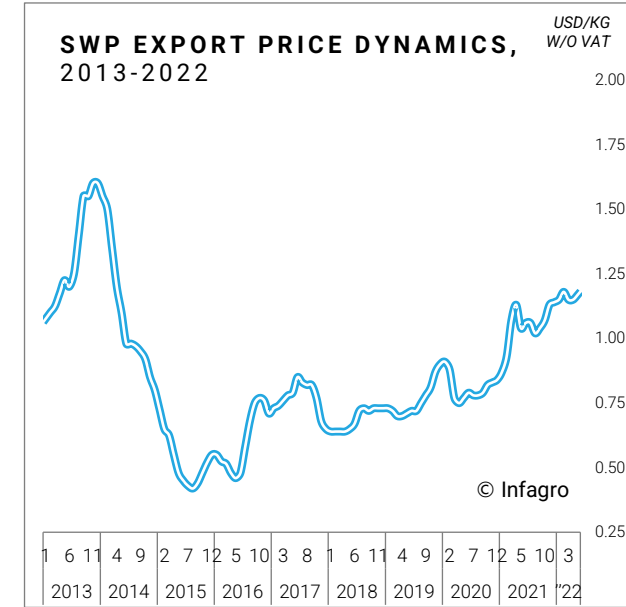
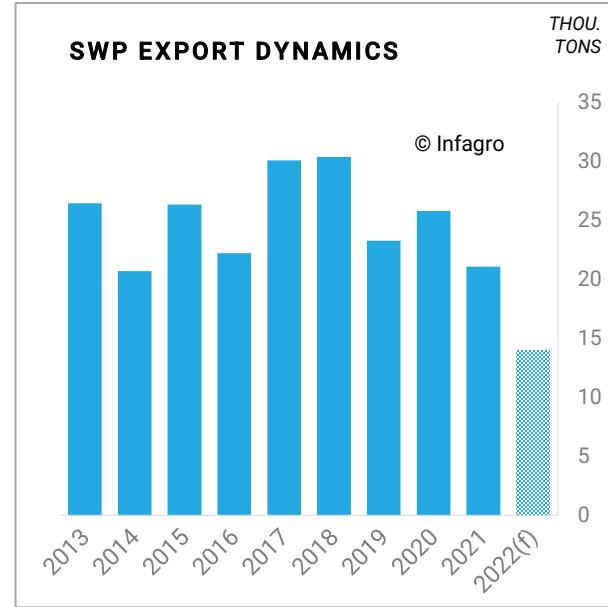
Also, belarusians and even russians still have a rather negative impact on the pricing of Ukrainian whey. They offer traders very large volumes at low prices. At the same time, during the war, traders no longer risk making prepayments to Ukraine, as it was the case before.

The geography of exports has changed significantly compared to the pre-war period. By 2014, about half of sales were to Russia. Then russians, like it was in case of cheese trade, paid a price much higher than the world one. Other CIS countries also were buying significant volumes. However, even then the geography of the trade was quite wide.

In recent years, the structure of whey exports by importing countries has changed significantly. russia has not bought Ukrainian whey for ten years. For several years in a row, China has been the leader in purchasing of whey, which is the world's largest exporter of these goods. Traders also buy large volumes for the countries of Southeast Asia. China and the region accounted for about 68% of total sales last year. MENA countries also account for significant exports.

This geography once again confirms how much Ukrainian whey exports depend on sea shipping and how much Ukrainian sellers now suffer from such dependence.

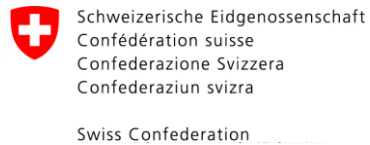
This year, it would be logical to increase exports to European countries, as the EU will abolish customs duties on Ukrainian goods. Previously, there were no duty-free quotas on imports of Ukrainian whey. Unfortunately, only 10% of Ukrainian dairies are certified by the European Commission..



DAIRY EXPORTS DURING THE WAR

Special information bulletin produced by Infagro analytical agency in the frame of the set of expert discussions for dairy exports support and promotion during the war

These activities are carried out jointly with the state institution The Entrepreneurship and Export Promotion Office and the analytical agency Infagro within the framework of the Swiss-Ukrainian Program "Higher Value Added Trade from the Organic and Dairy Sector in Ukraine" implemented by the Research Institute of Organic Agriculture (FiBL, Switzerland) in partnership with SAFOSO AG (Switzerland), www.qftp.org.



FiBL



This analytical bulletin has been prepared by Infagro Ltd. for informational purposes only and does not guarantee the accuracy and completeness of the information.

No part of the bulletin is subject to transfer to third parties (even for informational purposes), quoting, reproduction or duplication by any other means for distribution without prior written permission from Infagro Ltd.

This publication has been produced with the support of Switzerland within the framework of the Swiss-Ukrainian Program "Higher Value Added Trade from the Organic and Dairy Sector in Ukraine" implemented by the Research Institute of Organic Agriculture (FiBL, Switzerland) in partnership with SAFOSO AG (Switzerland). The contents of this publication are the sole responsibility of the author and do not necessarily reflect the views of the SECO, FiBL, SAFOSO AG, www.qftp.org.