

Dairy export - powerful support for the dairy industry

The Ukrainian dairy industry has always been export-oriented. However, due to the influence of a decrease in milk supply and other factors, in recent years the volume of dairy exports has been steadily decreasing. With the beginning of the war, exports became a salvation for the industry. Forced migration of the population and the economic crisis in Ukraine caused a significant decrease in dairy consumption. Therefore, even with a significant reduction in milk production, its surplus turned out to be too large. If proper exports level had not been managed in 2022, farmers would continue to slaughter livestock en masse, reducing the milk supply.

Ukrainian dairy farmers managed to overcome a lot of problems caused by the war, and so in 2022 exports of dairy products even increased.

In 2022 almost 25% of milk received by dairies for processing was used for the production of export products. In 2021 this share was 17%. For comparison: in Poland, it constitutes 35%.

According to the Ukrainian Association of Business and Trade, the share of dairy exports in total agricultural exports of Ukraine is 0.8%, and its volume is quite small compared to the leaders of the world dairy trade. In 2022, Ukraine exported 700,000 tons of dairy products in milk equivalent worth 420 million dollars. For comparison: in the same year, US dairy exports amounted to 9.5 billion dollars (7.6 in the previous year). In volume units, the United States exported 2.82 million tons of dairy products.

Traditional products of Ukrainian dairy exports are stock products - butter, spreads, dry milk and whey, casein, cheese, cheese products, and canned milk. Fresh dairy products - milk, sour cream, cream, cottage cheese and desserts are also exported, but the volumes are small.

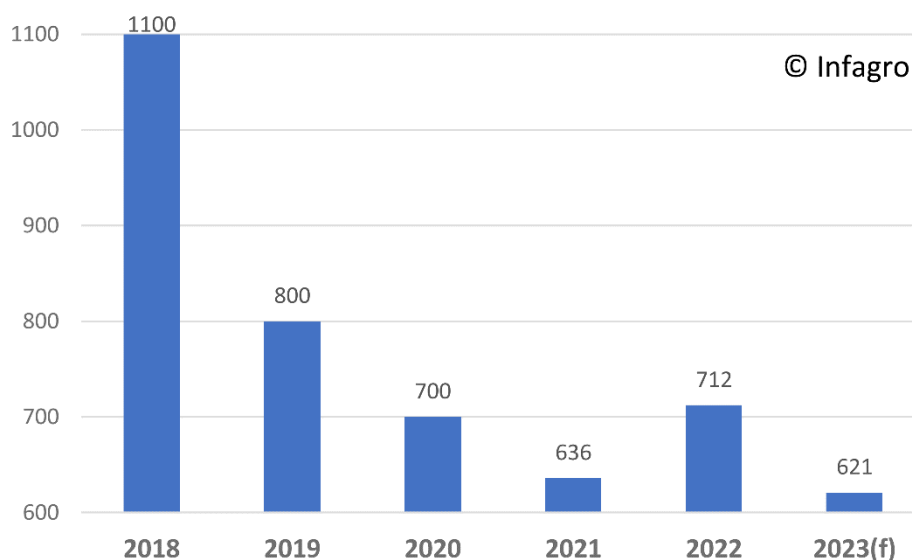


Fig. 1. Dynamics of dairy exports in terms of milk 2018-2023, thousand tons

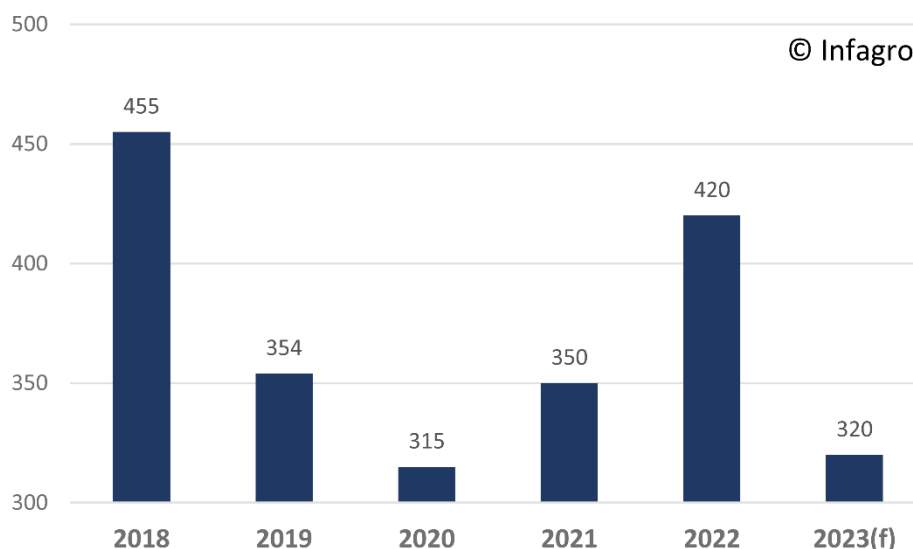


Fig. 2. Dynamics of dairy exports in monetary terms 2018-2023, million dollars

In spring of the 2022, because of the military operations on the territory of Ukraine, dairy export activity was extremely limited. Due to broken logistics chains and a lack of ways to transport goods through the ports of the Black Sea, the cost of delivery to importing countries has significantly increased, for some routes by five times. Some traders-importers completely stopped contracting Ukrainian goods and others did not make advance payment for it, as they had done before.

In the summer of 2022, the situation in foreign trade changed radically. Ukrainian dairy producers, together with traders and due to support provided by government structures, were able to open new logistics opportunities. Dairy exports began to grow rapidly.

Ukrainian dairy was saved due to friendly EU countries which greatly simplified conditions of transit of Ukrainian goods through their territory and, most importantly, allowed to supply goods to Europe without quotas and duties. So, in 2022 the lion's share of some products (butter, milk powder, casein) was sold just to the EU.

Export activity has also been influenced by the market mood. In the EU, during the three quarters of 2022, the prices for dairy products were increasing. For example, for a long time, butter was sold at prices above 7,500 USD/t. Skimmed milk powder also was traded above USD 4,000 USD/t, which is also considered as a multi-year high.

In the third quarter of 2022, prices began to sharply decline. By the end of the winter, some dairy products, such as Gouda, fell to seven-year lows (excluding the short-term price drop at the start of the Covid-19 pandemic in 2020). In February 2023, the price of butter in the EU has already fallen below the mark of 5000 USD/t, and SZM cost only 2800 USD/t, which is a third less than in 2022. At such prices, Ukrainian exporters are not very interested in trading even with European countries.

This is how dramatically the dynamics of the dairy market can change in a short period of time.

Ukrainian exporters successfully took advantage of the conditions that developed in the EU market in a certain period of 2022. This made it possible to bring Ukrainian butter exports to a much higher level than in the previous, pre-war year, and to take first place among the countries that supply this product to the EU, being ahead of even the traditional leader, New Zealand.

A significant impact on the state of the world dairy trade, and therefore on Ukrainian exports, had the demand by China. The restrictions imposed by China in connection with the pandemic led to a decrease in purchases and an increase in supply in the world dairy market, which also became one of the factors in the decrease in prices. This also affected exports of the milk powder of Ukrainian produce. Having reached a record level in the last 7 years in September 2022, the volume of exports of SMP decreased, following the trends of the world market.

It should be noted that the first deliveries of cheese to EU countries happened only in 2022 when tariff restrictions were removed (before that very high tariffs were in effect). In addition, Ukrainian exporters managed to use their competitive advantage in the price of raw milk. Although the active dairy trade did not last long, it was only a few months, after which the export volume decreased.

From the beginning of 2023, raw milk in Europe began to rapidly fall in price. This now worries not only European farmers but also European Commission officials, who cautiously state the need to protect the EU market. At the same time, the European Commission announced its intention to extend the duty-free trade regime with Ukraine, but now with some restrictions provided.

What affects Ukrainian dairy exports

The position of Ukraine as an exporter of dairy products in the world market is constantly changing. For the past several dozen years, the country has traditionally been a net exporter of dairy products, but in 2019-2021 the situation changed, exports decreased, and imports grew very rapidly. In 2021, for the first time in the years of independence, the volume of imports of dairy products actually equaled the volume of exports in milk equivalent, and even slightly exceeded it in terms of money.

The possibility of export and its economic attractiveness affects the domestic milk market: it determines the demand of processing enterprises for raw milk, and, accordingly, leads to a change in its purchase price. The activity of export sales depends on the state of the world market, the ability of domestic enterprises to compete in this market, and the availability of raw milk.

Among the factors affecting the state of exports, there are also political ones. For example, the "milk wars" started by Russia in 2013 led to drastic changes in exports of Ukrainian cheese. Before that cheese exports to Russian Federation had accounted for 83% of all Ukrainian exports of this product. After Russian embargo on the import of Ukrainian cheese and other dairy products, there occurred a redistribution of the use of raw milk in domestic milk processing, and a difficult search for new export markets began.

A comparison of the export data for 2013 and 2021 shows that 9 years after the introduction of the "cheese embargo", exports of cheese were still 11 times smaller, of cheese products - by a quarter, and of canned milk - by a third, compared to 2013. Exports of spreads and vegetable-based cream mixtures also became more modest. At the same time, exports of casein increased by 68%, and in 2021 there was exported almost 3 times more butter than in 2013.

The group "Others" (Fig. 3) includes products with insignificant export volumes: fresh dairy products, whole milk powder, processed cheese and products, and infant formula products.

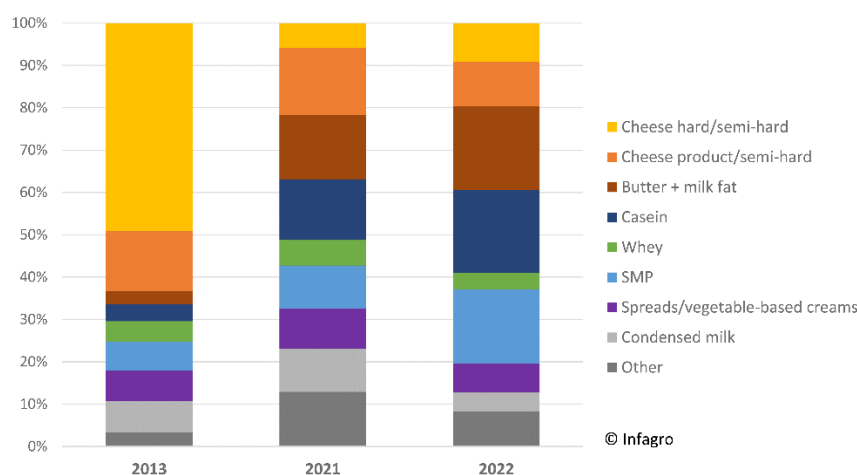


Fig. 3. Change in the structure of dairy exports in 2013, 2021, 2022 in monetary terms

Geography of Ukrainian dairy exports

2014 became a year of radical changes in Ukrainian dairy exports. Since that time there began its steady reduction. After 8 years, in 2021, exports became half of what they were in 2013 (in monetary terms).

In 2022, despite the war, exports increased significantly. The share of post-Soviet countries continued to decrease and an overall increase compared to the previous year occurred due to a significant, 3.5-fold increase in exports to the EU countries.

In recent years, Ukrainian dairy products have been exported to almost 100 countries: in 2021 to 92 countries, in 2022 to 80. However, only a dozen of countries buy significant volumes. In 2021, the share of the ten largest importers was 68% of all exports, in 2022 it became 76%.

Before the full-scale war, more than half of Ukrainian dairy exports were made to post-Soviet countries. In particular, in 2021 Kazakhstan (19%), Moldova (14%), Poland (7%), Azerbaijan (7%) and Georgia (7%) were considered the largest importers.

In 2022, due to logistical problems and new trade opportunities provided by the EU, 4 European countries entered the top 10 largest importers of Ukrainian dairy products. Poland became an absolute leader with 27% share of all sales. Much dairy produce was delivered to the Netherlands (5%), Germany (3%), and Lithuania (3%). But even then, in 2022 deliveries to Kazakhstan and Moldova remained quite significant (13% each).

It is worth highlighting Israel and China as the countries which both before the war and now are among the top ten importers of dairy products from Ukraine.

Last year, Poland became an absolute leader in the purchase of Ukrainian butter, milk powder, and casein. A third of all exported cheese was sent to this country.

Moldova buys a wide range of Ukrainian products, but no dairy commodity item can be marked as a leader among those imported by this country.

Kazakhstan is considered the largest importer of Ukrainian cheeses. The Netherlands, as well as Lithuania, buy a lot of Ukrainian butter, casein, milk powder, and even some cheese. Germany

actively imports Ukrainian casein. Azerbaijan and Georgia buy butter, milk powder, and canned milk. Israel became an important importer due to purchases of butter and milk powder and China leads in imports of whey.

Since 2013, Ukrainian exporters have also increased supplies to the countries of MENA (Middle East and North Africa) and Southeast and North Asia. It is obvious that the share of post-Soviet countries in Ukrainian dairy exports is decreasing year after year, and the share of EU countries is noticeably increasing.

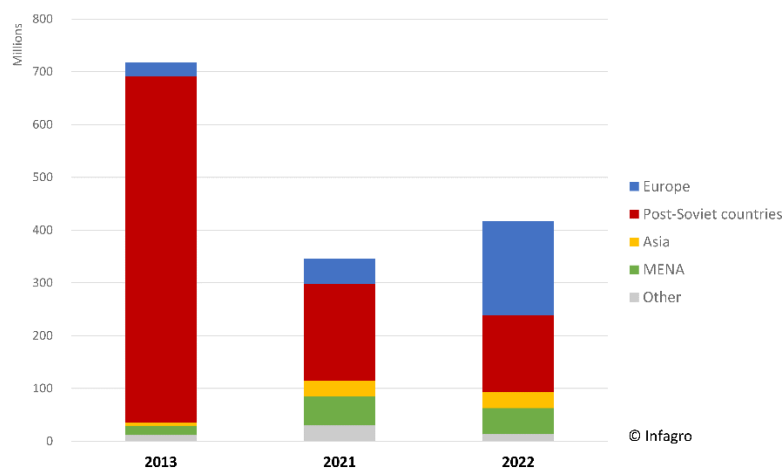


Fig. 4. Distribution of dairy exports by regions of destination in 2013, 2020, and 2021, million dollars

Price trends

Last year substantial increase in exports in terms of money occurred not so much due to the growth of volume but rather because of the high prices on the world dairy market.

Dairy products that Ukraine proposes for export are mainly casein, butter, skim milk powder, and cheese (Fig. 3). Casein is the product with the highest price. In 2022, over 10,000 USD/t was earned for it. In the same year, export prices for skim milk powder rose to record highs since 2014, and for butter since 2013. Cheese prices were also high, although lower than in 2021 due to the entry into the EU markets. But whey was expensive only until the summer, then there was a sharp price drop and production of whey became unprofitable.

It should be noted that in certain periods of the past years, Ukrainian export prices for butter and cheese were higher than the world prices due to the targeting of supplies to post-Soviet countries. Recently, when the geography of exports has changed, traders have to sell goods at a price with a significant premium to global traders. A significant role in the price gap with the world market is also played by more expensive and complicated logistics for deliveries to Asian and African countries due to the loss of shipping opportunities through Ukrainian Black Sea ports.

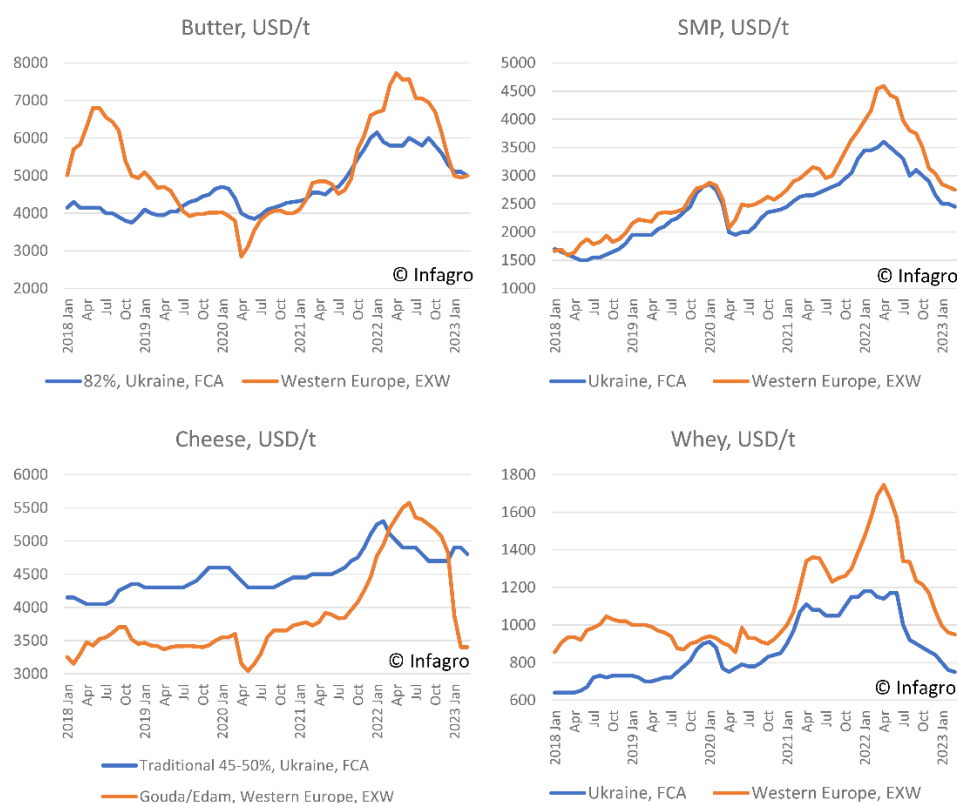


Fig. 5. Comparative dynamics of export prices for some dairy produce (Ukraine, Western Europe)

Prospects

The availability of a sufficient amount of high-quality raw milk is a major prerequisite for export development. The beginning of the hostilities put this at risk. During the year of the war, livestock decreased by 13.5%. Many dairy farms ended up in the occupied territory, as well as some processing enterprises. This means that in 2023 one cannot expect an increase in milk production up to at least the pre-war level. The scarcity of raw milk means that it will be expensive. Considering the lower prices of raw milk in the EU, this means obstacles for Ukrainian exports due to the inability of finished products to compete on price.

The reason for the decrease in export volumes may be the projected increase in the consumption of dairy products in Ukraine. There is hope that Ukrainian migrants will return home more actively this year.

In addition, the global dairy market is also experiencing a crisis. The GDT auction records a decline in the price index every two weeks, which means low prices in the global dairy market. This restrains exporters and forces them to wait for better times or to sell finished products at a loss.

Political factors can also intervene. Due to the already-mentioned decrease in the price of raw materials in Europe, strikes of dairy farmers began, who through their associations are trying to influence the decisions of the European Commission regarding the creation of preferential conditions for Ukrainian exporters. So far, the European Commission is in favor of continuing the regime of lifting quotas and duties for the export of Ukrainian products to the EU, but there have

already been warnings about the introduction of certain restrictions that will protect the European market.

Therefore, Ukrainian exporters will have to work a lot on the effective use of the raw milk available this year, identify promising export dairy products, closely monitor the state of the world dairy market, maintain already established trade relations, and look for new trade opportunities. Exports, although subject to a certain reduction, should remain at a sufficiently high level. In particular, this will define whether it will be possible to stop the reduction of livestock and how soon the dairy industry will have recovered.

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