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THE KEY COMMODITIES OF DAIRY EXPORT

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

General tendencies

The war in Ukraine has radically changed the milk balance, and export became a necessity for the dairy industry. The volumes, exports geography and the exports structure by types of products now look completely different.

Young specialists do not remember the times of trade with Russia, which was once the main market for Ukrainian products. Trade with other post-Soviet countries has significantly decreased. At the same time, there appeared an opportunity to significantly increase the supply of dairy products to EU countries.

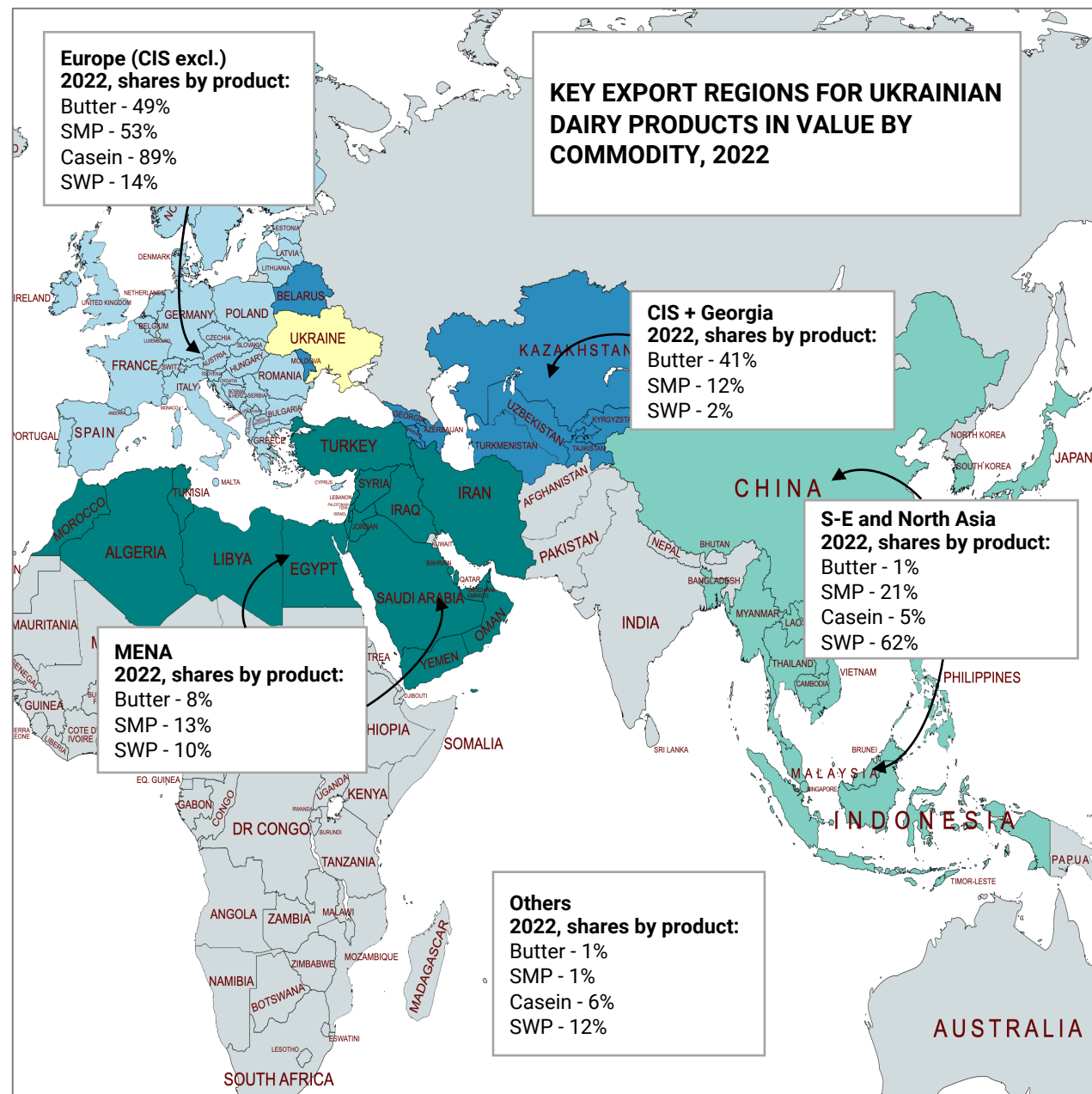
Manufacturers also had to change the range of export products. The sales of various inexpensive dairy products with contained vegetarian fat (cheese-like products, condensed milk with vegetable fats, spreads) have significantly decreased due to the complications of logistics. At the same time, the exports of butter, products related to the production of skimmed milk powder and casein have significantly grown. Last year even such products as cheese were exported more. Surprisingly, this growth occurred due to supplies to the EU. A year ago, a chance of such deliveries was hard to imagine.

That was possible last year. In the current year there will be problems with the exports of cheese and especially cheese products, no "breakthrough" is also expected in sales of fresh dairy products either. The basis of foreign dairy trade will be butter, skimmed milk powder, casein, that is, raw materials. In fact, this was also the case in 2022, when these goods accounted for almost 60% of total exports.

Like it was last year, more than half of butter, milk powder an about 80% of casein will be exported to the EU. Traders from Poland and Lithuania will be most active in cooperation. Sales of butter and milk powder to Bulgaria and Romania are also promising.

The conjuncture of the world markets of dairy products in 2023 is much worse than last year, so the earnings of Ukrainian exporters will be more modest. After all, in terms of money raw milk is now 15% cheaper than a year ago (9% more expensive in hryvnia equivalent), and export prices fell by 16% for butter, 40% for dry skimmed milk. For casein and dry whey, the prices have fallen almost twice.

However, analysts claim that the price "bottom" on the world dairy markets has already been passed and in the second half of the year, the prices of dairy products should rise. So Ukrainian exporters still have a chance to make money.



Butter

The market of butter in Ukraine is very unstable. The production sometimes rapidly grows and then falls. Accordingly, in different years there can be multiple fluctuations in exports. There were even periods when imports significantly exceeded the volume of butter exports. Initially, this instability was related to the priorities of dairies in the use of raw milk, later the shortage of raw milk made a significant impact.

20 years ago, when huge volumes of milk were still processed in the country, the lion's share of it was directed to the production of butter combined with dry skimmed milk or casein. At that time, Ukraine was among the world's top five exporters of butter. Later, when there appeared the opportunity to earn a lot of money from the supply of cheese to russia, manufacturers radically changed the structure of raw materials use in favor of the latter.

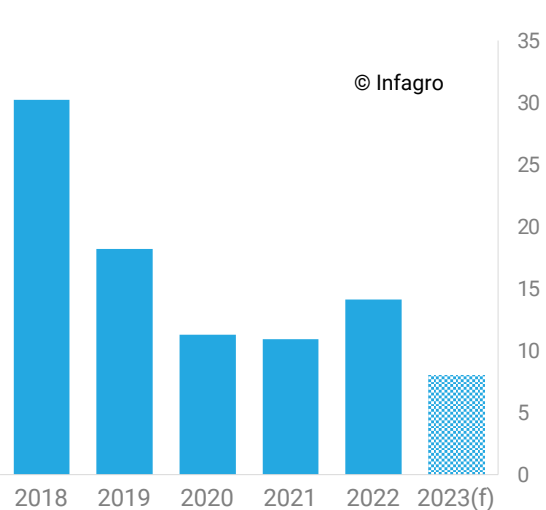
With the beginning of the war in 2014, the "friendship" with russia ended and the cheese trade decreased many times because it was not possible to find new sales markets. Manufacturers were forced to return to the more primitive production of butter combined with protein drying. There were quite large surpluses of butter in Ukraine, and it was necessary to export it. Manufacturers successfully coped with this; they increased foreign sales many times. In 2017-2018, the export of butter already exceeded the mark of 30,000 tons.

Although, the success was not long-lasting. The supply of milk for industrial processing has decreased. The output of butter decreased, and consumption increased significantly. As a result, export sales of butter had to be significantly reduced. In 2020 and 2021, only 11,000 tons of butter were exported.

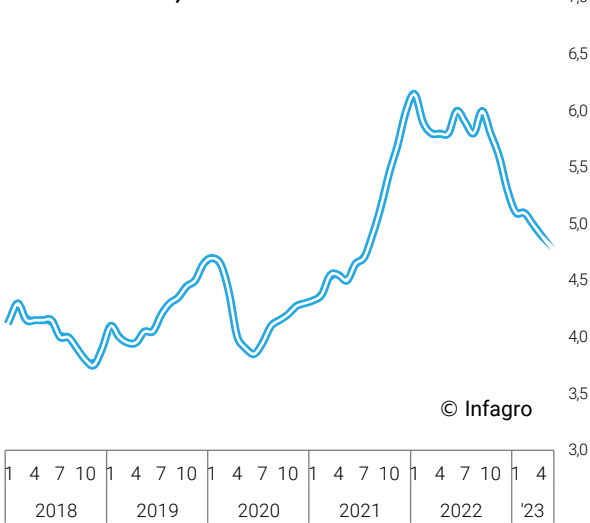
In 2022, the increase in butter exports became possible solely thanks to the opening of the EU market. More than 14,000 tons were exported, half of which was sent to friendly European countries. Also, the traditional deliveries to post-Soviet countries remained significant.

In the current year, the export of butter will drop possibly even twice (to 7 thousand tons) under the influence of a few reasons. The output will fall as a result of a further reduction in the supply of "excess" raw milk. Consumption of the product, like other dairy products, will increase. Prices of the world demand for butter are significantly lower than last year, which also definitely does not stimulate exports. Last summer, butter was exported from Ukraine for 6,000 USD/t, now European traders are not eager to pay more than 4,700 USD/t.

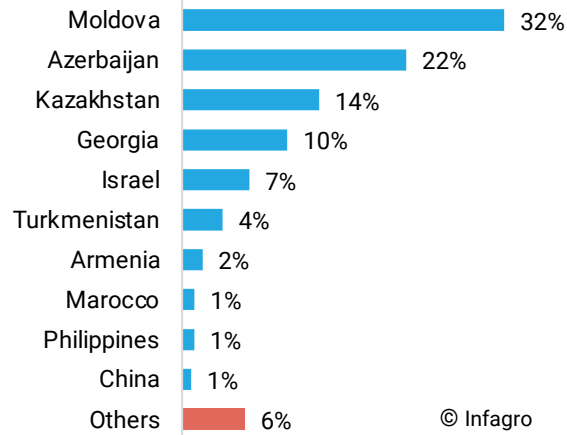
BUTTER EXPORT DYNAMICS



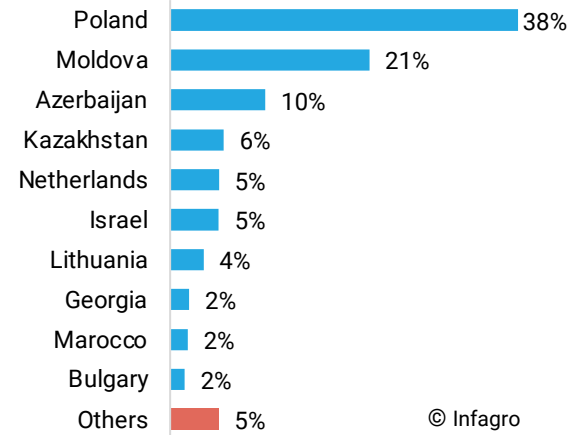
BUTTER 82% EXPORT PRICE DYNAMICS, 2018-05'2023



BUTTER EXPORT DESTINATION STRUCTURE, 2021



BUTTER EXPORT DESTINATION STRUCTURE, 2022



Skim milk powder

Before the "cheese" boom in the mid-zero years, very large volumes of skim milk powder (SMP) were produced in parallel with butter in Ukraine. At that time, annual export sales exceeded 50,000 tons. Then the situation changed, the volume of production and export of SMP decreased steadily and significantly.

Only with the beginning of the war in 2014, dairies were again forced to increase production and, accordingly, the export of SMP. In 2014-2017, 29,000-34,000 tons were sold abroad. But then the supply of raw milk decreased, and so did foreign sales. In 2021, only 13.2 thousand tons of goods were exported.

The full-scale invasion of russia in 2022 caused the cardinal change of the dairy balance in the country. Against the background of a reduction in the consumption of dairy products, it was necessary to direct the milk to drying again for its further export. As a result, foreign sales of SMP increased by 65% in comparison with the previous year to almost 22,000 tons.

If the EU had not allowed preferential import and transit, the volume of dry milk exports last year would have been much more modest. After all, until 2022, the lion's share of SMP was exported through the ports of the Black Sea to the countries of Africa and Asia, or even to transit through Russia to the CIS countries. Of course, last year such logistics became impossible.

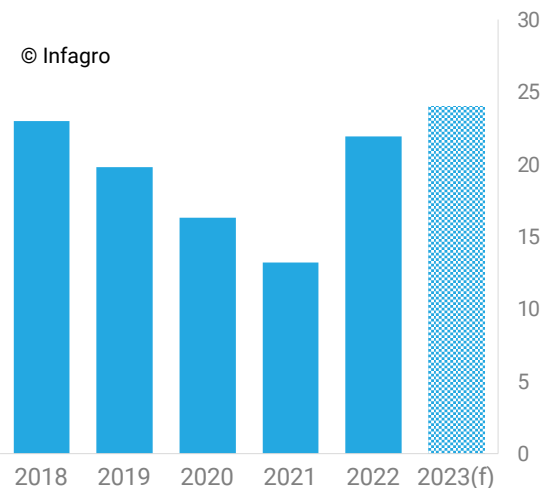
So, in 2022, 52% of all SMP was sold directly to the EU. The cooperation of Ukrainian exporters with Polish, Lithuanian, and Dutch traders turned out to be the most active. Another 44% was exported to third countries in transit through the European Union countries and only 4% to neighboring Moldova. In transit, Romania was the most involved with milk supplies to Asia through the port of Constanta.

In the current year, despite the unprofitability of trade in the spring months, the volume of exports of skim milk powder will not decrease. The prices of external demand are not yet comparable to the cost price. It should be noted that now the export price is almost 40% lower than a year ago. Some operators are already forced to sell SMP at USD 2,000/t. But there is simply nowhere to direct the "excess" raw milk against the backdrop of a reduction in the production of casein and cheese products.

However, there is still hope that the market conditions in the second half of the year will be more favorable and dairies will still have time to earn a little from the export of SMP.

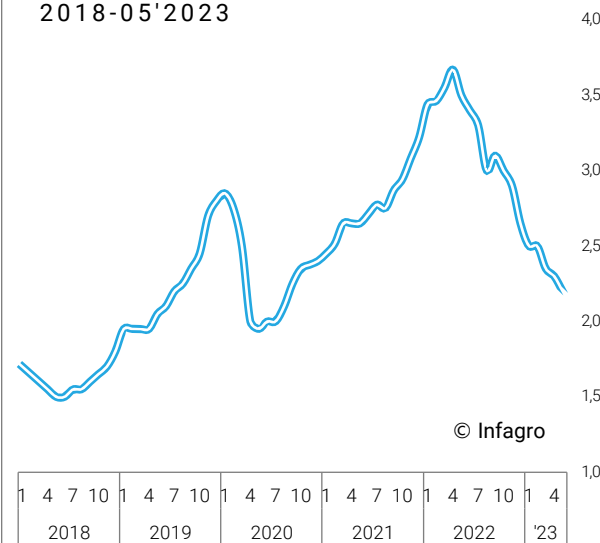
SMP EXPORT DYNAMICS

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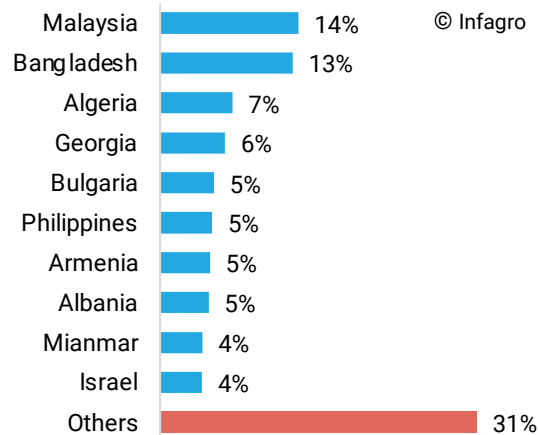
SMP EXPORT PRICE DYNAMICS, 2018-05'2023

USD/KG
W/O VAT



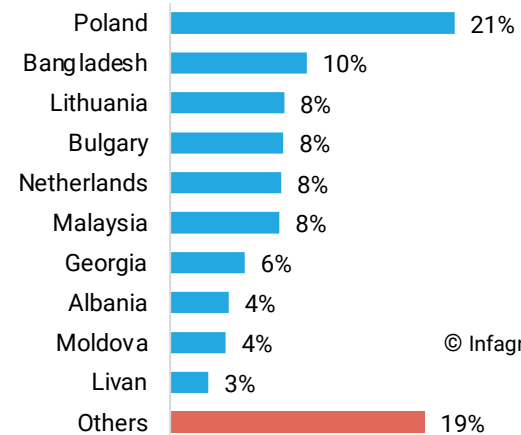
SMP EXPORT DESTINATION STRUCTURE, 2021

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SMP EXPORT DESTINATION STRUCTURE, 2022

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Casein

Due to the specifics of production (the need to dispose of harmful waste), the production of casein in the world is spread in a small number of countries. In Ukraine, the production of this product is quite significant, although there is a big drawback in that mostly only technical acid casein is produced, the market for which is quite limited, and the prices are lower than for edible casein.

The consumption of casein in Ukraine is quite limited, so almost all the casein produced is subject to export. At the same time, Ukraine is considered as one of the world's largest exporters of casein (especially in the technical casein category). As in the case of milk powder, the production of casein in the country was not always a priority, the volume of production/export sometimes increased, then decreased again.

By 2014, for many operators, the casein market became uninteresting, drying was cut and production volumes significantly decreased. But with the loss of the cheese business with exports to Russia, everything changed, the product began to be actively dried again. This was the case until 2019, when the supply of raw materials was noticeably reduced, but all the same, production was still significant. In 2019-2021, almost 6 thousand tons of casein were sold to foreign markets.

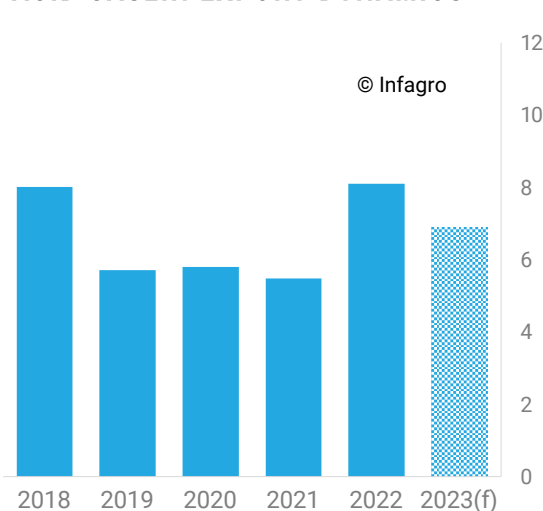
In 2022, the surplus raw milk appeared again, high external demand prices were formed, and interest in casein production increased. There was also a very important stimulating factor. Unlike other dry milk products, there were no problems with logistics, because even before the war the main sales market was the EU. This was because technical casein could be sold in Europe without mandatory certification, unlike other dairy products. As a result, last year the export of casein amounted to more than 8,000 tons, which is considered a record since the mid-2000s.

Traditionally, most Ukrainian casein is purchased by importers from Poland, where it is often processed into caseinates. A lot is bought by Germany, where it is used for technical purposes. Deliveries to the USA and China have been established relatively recently, these markets are considered as quite promising.

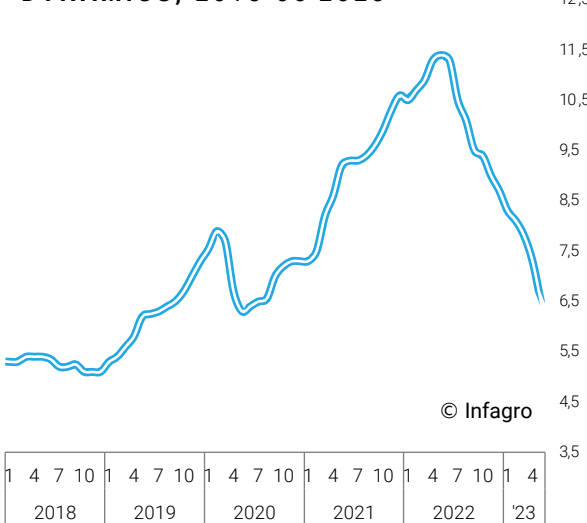
In addition to large volumes of exports, last year casein prices also reached record highs. For a certain period, some companies even sold it at 12,000 USD/t.

In the current year, the situation on the casein market has significantly worsened. The supply prices are now almost twice as low as at this time last year. Therefore, factories began to avoid the production of this product, exports in 2023 will be less than last year.

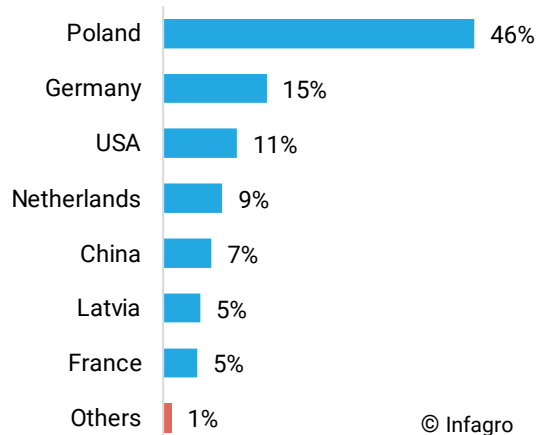
ACID CASEIN EXPORT DYNAMICS



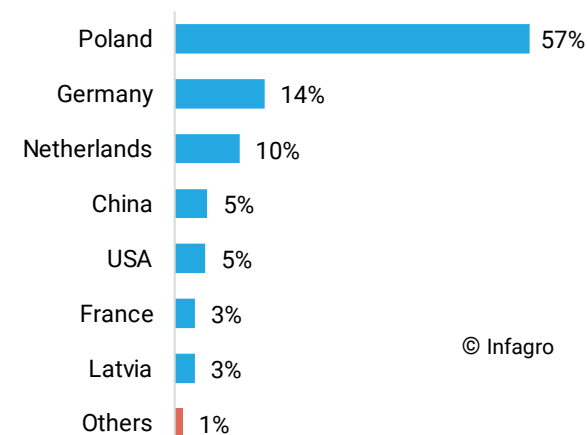
ACID CASEIN EXPORT PRICE DYNAMICS, 2018-05'2023



ACID CASEIN EXPORT DESTINATION STRUCTURE, 2021



ACID CASEIN EXPORT DESTINATION STRUCTURE, 2022



Dry whey

A relatively large amount of cheese is produced in Ukraine, so the processing of the whey by-product is a necessity regardless of the market needs. In many developed countries, deep processing of liquid whey is used to produce protein concentrates and lactose. In Ukraine, the approach is still different, the whey is mainly dried. The good thing is that almost all dairies have already switched from the production of standard whey to demineralized one, that is, food product. Internal consumption is limited, therefore, for a normal balance, approximately half of the produced whey, and sometimes more, must be exported.

The largest volumes of whey were sold abroad in 2017-2018 when producers of cheese products were very active. In recent years, due to a significant decrease in the production of cheese and cheese products, the production of dry whey has decreased, and exports have also decreased.

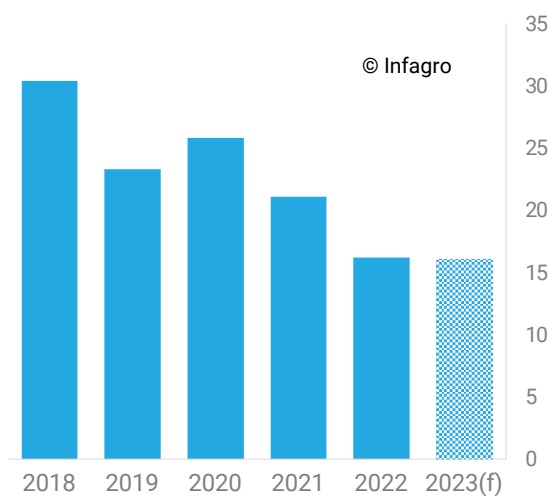
Last year, the export of whey, as well as the production of cheese, decreased significantly. Only 16,000 tons were exported, which is almost twice less than five years ago. The reason for the decline was also the loss of traditional logistics capabilities. After all, in recent years the lion's share of the product was exported to China and other countries of Asia and Africa, and of course, logistics took place through Ukrainian Black Sea ports, which have become unavailable since February 24, 2022. Therefore, even having raw milk supply, not all dairies processed it.

In 2023 the cheesemakers will have even less interest in drying whey. Almost since the beginning of the year, the production of dry whey in the country has been considered unprofitable. Although, unlike last year, new logistics routes have already been developed. Most of the goods are shipped through the Romanian port of Constanta. There are certain routes (although more expensive) through the ports of the Baltic Sea. But any other available logistic alternative is significantly more expensive than via Odessa.

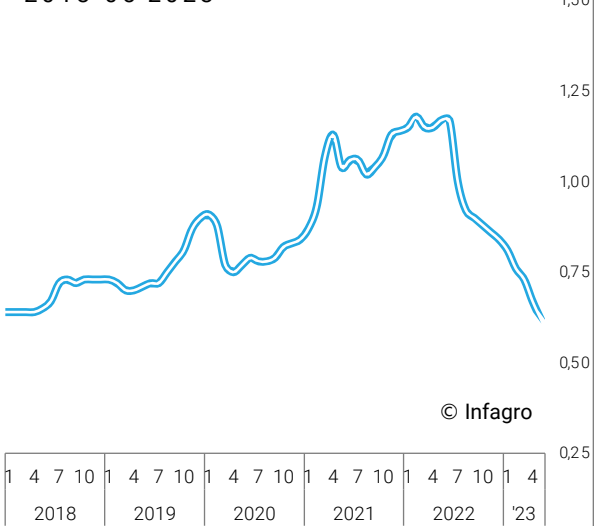
The reason for the producers' loss of interest in the whey trade is the sharp drop in prices of the world demand for the product. Now they are almost twice as low as last year. Importers are no longer eager to pay even 600 USD/ton for Ukrainian whey. Prices could be a little higher if our "good" neighbors, the Russian Federation and Republic of Belarus, did not put their dumping offers of their whey.

Therefore, the export of dry whey will decrease even more in the current year. The EU countries remain the best option for foreign sales, at least there are fewer losses in logistics. However, we hope for the recovery of the world commodity prices to a level that would at least allow Ukrainian producers to operate at a break-even point.

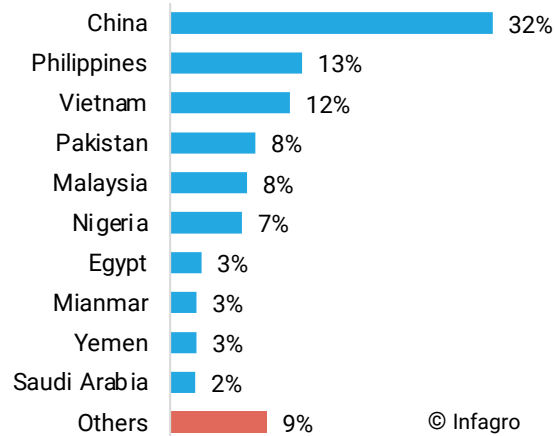
SWP EXPORT DYNAMICS



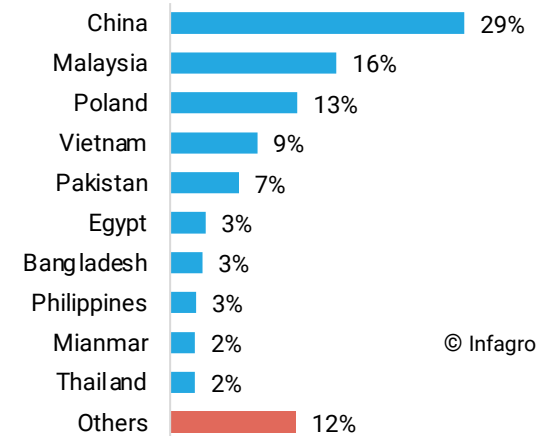
SWP EXPORT PRICE DYNAMICS, 2018-05'2023



SWP EXPORT DESTINATION STRUCTURE, 2021



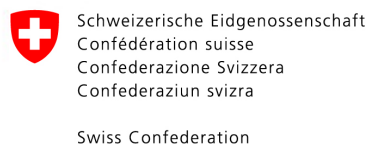
SWP EXPORT DESTINATION STRUCTURE, 2022



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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.



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