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# Надання інформаційних послуг по молочній галузі та інших напрямках АПК

## Dear colleagues,

For the first time we are holding this conference in conditions of war, in an extremely difficult economic situation, which arose because of the attack of the country-agressor on Ukraine.

First of all, we would like to express our gratitude to our Armed Forces for their providing the opportunity to gather and discuss the dairy industry issues. Courage and dedication of our Armed Forced has made our meeting possible.

The theme of this conference is operation of dairy industry in wartime, because this is something that concerns not only us, industry specialists, but also consumers of our products. We will discuss the state of Ukrainian dairy industry, the impact of hostilities and mass migration on its operation, changes in consumers behavior. We will also speak about our appreciation of the support our European colleagues provided and the efforts of the state in resuming dairy exports and support of the economy of dairy enterprises through the timely organization of public procurement. The topics of discussion will also include finding ways of solving the problem of relations between milk producers, dairies and trade networks.

The passing year will certainly be remembered. None of the dairy people will be able to forget the first days of the war when important decisions were made on the fly. This have saved both processors and dairy farmers. The state officials solved emerging problems as quickly as never before and dairies and farmers shared raw milk and distributed their products as humanitarian aid to the population and the Armed Forces. We can state that due to our joint efforts, we have saved the country's dairy industry. We may not be interested much in assortment innovations now, but our citizens are provided with basic dairy products.

The organizers are grateful to all partners of the event. Without their support holding the conference would not be possible.

Together we will win! Glory to Ukraine!

***Vadym Chagarovsky***
*Head Dairy Union of Ukraine*
***Vasyl Vintonyak***
*Director INFAGRO*

**Vadym Chagarovsky**
**Chairman Board of Directors**
**Dairy Union of Ukraine**

Спілка молочних підприємств України

# THE ROADMAP FOR DEVELOPMENT OF THE MILK PROCESSING SUB-COMPLEX OF THE AGRICULTURAL SECTOR OF UKRAINE

## 1. DEVELOPMENT OF THE RAW MILK PRODUCTION

In 2021, 3.2 million tons of raw milk were collected for industrial processing: 2.5 million tons (82%) from enterprises, 0.55 million (18%) from households, more than 0.15 million tons were  processed as toll manufacturing.

In first half of 2022, dairies purchased for industrial processing more than 1.3 million tons of raw milk (85% of the last year's figure), of which 1.13 million tons (87%) came from industrial dairy farms (enterprises) and 0.17 million (13%) from households.

According to SMPU estimates, in 2022 compared to 2021 the decrease in volume of the raw milk supplied for industrial processing will amount to 11-12% (7-8% for enterprises, 23-25% for households).  At the same time, by the end of the year the share of households' milk supply is forecast at the level of 17-18%.

SMPU offers to provide the state financial support to the following categories of raw milk producers:

**A.** According to the Order of the Ministry of Agrarian Policy dated March 12, 2019 No. 118 "On approval of requirements for the safety and quality of milk and dairy products", to be starting January 1, 2023, raw milk supply from households will be restricted for industrial processing.

However, in order to provide the milk processing enterprises, which are still relying on milk supply from households, with appropriate amount of raw milk and increase the level of income of rural population, it is proposed to prolong the permission to supply raw milk produced in households for another two years - until December 31, 2024. At the same time, it is necessary to make the requirements for the procurement of such milk more strict in order to ensure its traceability.

**B.** To reduce shadowing of the dairy market by elimination of “grey” schemes used for promotion of such products to the final consumer, it is advisable to introduce a budget subsidy per kilogram of raw milk delivered for industrial processing. At the same time, it is advisable to ensure the differentiation of this budget subsidy beneficiaries:

- subsidizing production of raw milk in households and gradually transform the relevant entities into small-scale dairy farms
- subsidizing of raw milk supply for industrial processing by other milk producers

**C.** To create the opportunities for application of the instruments of state financial support to milk processing sub-complex provided by the Resolution of the CMU of February 7, 2018 No. 107, it is necessary to:

- ensure equal access to state financial support resources for all categories of dairy farms (small, medium and large)
- ensure protection of this state financial support in order to quarantee its predictability.

## 2. THE INCREASE OF THE MILK PROCESSING EFFICIENCY

SMPU offers four key areas of the state support aimed at the growth of the milk processing efficiency:

**A.** The state support for milk processing enterprises is currently included in the «boiler» program designed to support development of livestock farms. It is aimed only at capital construction. This means that milk processing enterprises cannot receive it.

Therefore, it is proposed to allocate state support to milk processing enterprises in a separate article and allow the use of funds not only for capital construction, but also for purchase of equipment, construction of treatment facilities and warehouses.

**B.** As almost 30% of the dairy market is occupied by unscrupulous producers (falsifiers and «grey» processors who systematically avoid paying taxes), introduction of the state subsidy toolkit for 1 liter of raw milk supplied for industrial milk processing will stimulate «whitening» of the market and growth of the tax base.

**C.** Implementation of the National School Milk Program apart from its social significance will also support dairy industry, but only if unscrupulous producers are «cut off» from it.

**D.** In order to ensure the availability of dairy products and to increase the transparency of milk and milk products markets, it is necessary to introduce a reduced VAT rate for the entire supply chain of raw milk and dairy products (commodity code 04, commodity items 0401-0406, except of premium cheeses 0406 40 and certain commodity subcategories 0406 90).

**Vasyl Vintonyak**
**INFAGRO**
**Director**

# DAIRY INDUSTRY OF UKRAINE IN WAR TIME

The war with the russian aggressor began back in 2014 with partial occupation of Donetsk and Luhansk regions and annexation of Crimea. Since February 24, 2022 it has turned into a full-scale war which is devastating for economy of Ukraine. Ukrainian dairy industry has also suffered losses.

From the first days of the full-scale war, dairy farms and dairies found themselves in a situation where the continual production system was threatened. The aggressor destroyed farm buildings, livestock and made impossible milk delivery to dairy plants. In some northern and eastern territories and later also in southern regions, dairies ended up in the occupied territory. Some of them stopped operating, some were forced to move production to more or less safe regions.

Logistics chains were disrupted. Given the nature of the dairy business –its continuity and interdependence of production and processing – the situation became, without exaggeration, critical. Milk producers, not being able to sell raw milk to dairies, delivered milk to the population in nearby areas, often free of charge. They were also looking for opportunities to sell the produced milk to other dairies, those that remained available. Cows' rations were cut to reduce milk production.

Similarly, dairies, having lost their usual suppliers, looked for the opportunities to purchase raw milk from other suppliers. At the same time, they sent products from their stocks to the Armed Forces and as humanitarian aid to the affected population. Nevertheless, the milkmen managed to overcome the fear of the first days of the war, the shock passed. They got mobilized to save the industry. As soon as in March, about 70% of processing capacities resumed the stable operation, thereby saving not only industrial dairy processing, but also animal husbandry, giving farmers the opportunity to sell milk. Over time, when the russian army was forced by the Ukrainian Armed Forces and had to make a «gesture of goodwill» by leaving the northern territories of Ukraine, production and processing of milk has significantly increased.

However, although the situation has improved, the dairy industry indicators are much worse than before the war. As of the beginning of autumn, compared to the corresponding period last year, the number of cows decreased by 15.3% to 1,394,700 heads. At the same time, the livestock in enterprises decreased by 9.6% to 384.4 thousand heads, and in households by 17.3% to 1,010.3 thousand heads.

As a result, milk production decreased to 5,135.8 thousand tons in 8 months, which is 14.6% less compared to the same period last year. In dairy enterprises in this period it was produced 1,725.3 thousand tons of milk, which is 6.7% less, in households 3,410.5 thousand tons or 18.1% less. According to official data (approximate, because it is impossible to collect normal statistics now), in the first half of the year dairies received 1.3 million tons of raw milk, which is 16.7% less than in 2021. From industrial farms dairies purchased 1,127.5 thousand tons of milk (by 9.9% less), 172.6 thousand tons were received from households (by 38.2% less). Based on all available statistics and analysts' estimates, we assume that in 2022 milk production may fall by approximately 15% to 7.4 million tons. At the same time, despite the war, agricultural enterprises will reduce production relatively insignificantly, by 7% to 2.6 million tons. But in households, the drop can reach a million tons, down to 4.9 million tons.

It is obvious, that such a decrease in milk production impacts the volume of milk delivered for processing, which has significantly decreased. In the current year, dairies will receive for processing 17% less raw milk than last year, namely about 2.9 million tons, including 2.5 million tons from agricultural enterprises.

### 2022 FORECAST

Of course, under such circumstances, dairies had to reduce manufacturing of many types of dairy products. According to forecast based on current Y/Y results, production of dairy products which makes up the basis of consumption may decrease by a quarter. This applies to fresh dairy products, cheeses, canned milk and dry whey.

At the same time, there is a significant increase in production of export-oriented milk powder products which constitutes a pair with butter. In 2022, the volume of butter production will remain at the level of last year, 58-60 thousand tons, but production of skimmed milk powder may increase by 19% to 35 thousand tons and casein production will grow by 14% to 7.2 thousand tons. Such a significant redistribution in utilisation of raw milk by types of products will become clear after consumption of dairy products will have reviewed.

At first glance, such a significant drop in milk processing and production of certain dairy products looks critical for the country and it may seem that there may not be enough products to meet the needs of the consumers. But what is critical is not the decrease in production, but the sharp decrease in consumption of dairy products in the country. According to UN estimates, about 6.5 million citizens, potentially the best consumers — young women and children – have left the country. The financial situation of most of those who remained in Ukraine has drastically worsened, people are forced to save even on dairy products. According to rough calculations, in 2022 domestic sales of fresh dairy products in the country may decrease by 25%, cheese by 30%, butter by 23%. At the same time, consumption will fall not only due to population migration abroad. The solvency of Ukrainians due to the economic crisis has significantly decreased. In particular, it is expected that consumption of industrially produced fresh dairy products of people staying in the country may go down to 21 kg per capita in the current year (-12% until 2021), cheeses and cheese products to 3.4 kg (-18%), butter to 1.3 kg (-9%). Consumption of canned milk, which is considered a strategic product during the war, may increase by 5% to 1.3 kg. Such sad statistics arises from calculations, and all that because of our «russian brothers»...

## DAIRY EXPORT

Due to such a significant drop in consumption, dairy producers were forced to reorient themselves to manufacturing of dairy products for foreign markets. This was the only way to save the dairy industry of Ukraine, to stop the process of slaughtering livestock. But because of the war, the problems faced by exporters were so big, that it seemed impossible to solve them: the ports on the Black Sea coast (Odesa, Chornomorsk, Mykolaiv, Pivdenny) did not work, the replacement of Ukrainian ports with European ones was not established, there was a shortage of transport containers, the price of freight for refrigerated vehicles has increased several times, internal logistics have become more complicated, fuel shortages have arisen, the cost of delivering products by land to traditional sales markets in the countries of Central Asia and the Caucasus via Romania, Bulgaria, and Turkey has doubled. In addition, traders refused to work on pre-payment basis, exporting companies felt lack of operation capital to fulfill export orders, stocks produced in spring were accumulated in warehouses, there were also problems due to the inconsistency of veterinary and customs procedures...

However, after long efforts taken by dairy exporters themselves with involvement of the government, new logistical ways were still worked out. And most importantly, at the beginning of summer, the EU decided to remove all quotas and customs duties on Ukrainian products. All these efforts brought the result: Ukrainian dairy exports revived and this literally gave Ukrainian dairy industry an opportunity to survive.

Ukrainian dairy farmers and processors are sincerely grateful for this, first of all, to European partners.

Despite all the difficulties accompanying export operations, Ukrainian dairy exporters are increasing their sales volumes mostly due to exports to EU countries. In particular, in terms of butter, and even cheese, Ukrainian exporters have the prospect of find the themselves among the top suppliers of these products to EU countries by the year results. The conjuncture of the world markets (until October 2022) was also favorable, which gave Ukrainian exporters the opportunity to earn quite well. For three quarters, revenue from exports of dairy products amounted to 310 million dollars, which is 23% more compared to the same period in 2021.

In the current year dairy exports may even increase by 10% to 700,000 tons in milk equivalent. In particular, exports of butter are forecast to increase by 30% to 14,000 tons. Exports of skimmed milk powder may increase to a record high of 24,000 tons since 2017, and of casein to 7,500 tons, a record since 2018. Even exports of cheese may increase by a third to 7.5 thousand tons due to entry into the EU market.

However, there are still big problems with trade of dairy products outside the European Union. Therefore, exports of various milk-containing products: cheese products, canned goods and spreads will significantly decrease. We hope that the Armed Forces of Ukraine will soon return Ukraine's control over the sea and this will restore exporting with traditional cheap logistics.

## DAIRY IMPORT

The war with all its consequences and high prices in Europe made import of dairy products significantly decrease in the current year. According to experts' forecasts, in 2022 foreign sales of dairy products in equivalent of raw milk compared to the previous year may even halve to 310,000 tons. Purchase of cheeses, which formed the basis of dairy imports, may decrease by 40% to 28,000 tons and fresh dairy products by 40% to 21,000 tons. Imports of butter, canned goods and some dry milk products, which were still significant last year, is now completely insignificant.

Therefore, imports decreased, but did not stop, and this indicates that Ukrainian manufacturers have unused opportunities in import substitution. It may be worth thinking, first of all, for cheesemakers, to evaluate which items continue to be imported even in war conditions, and, perhaps, to arrange their production in Ukraine.

## IMPACT OF THE GLOBAL DAIRY MARKET SITUATION ON UKRAINIAN DAIRY

This year, until October, the prices of dairy products on the world market were record high. This was a certain luck for Ukrainian exporters, who were selling their products at a relatively high price, and in general, this was luck for all dairymen. After all, domestic market prices for both dairy products and raw milk were formed due to profitable exports.

External sales this year have a particularly significant impact on domestic pricing, as almost a quarter of all milk received by dairies is to be processed into goods aimed at export.

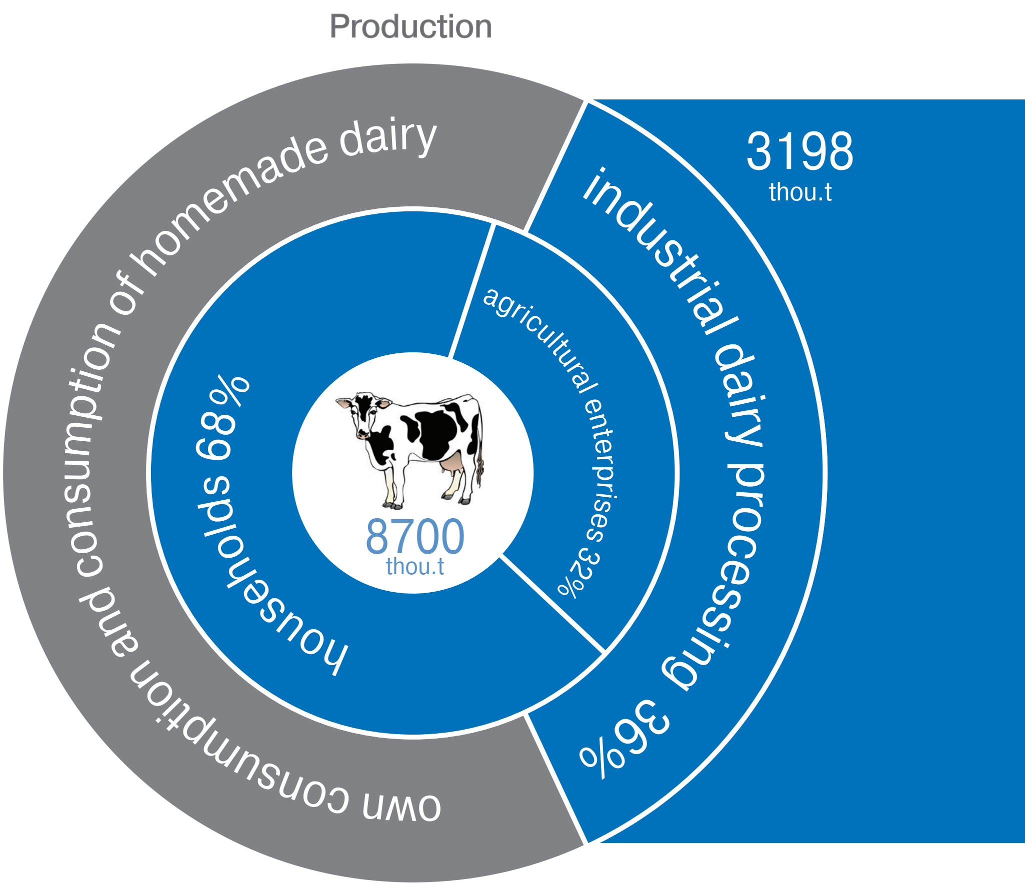
Importers' premium is much higher than it was before the war due to expensive logistics and other, new risks. For example, the price difference with the world market for Ukrainian skim milk powder reached 700 dollars per ton and butter was often sold at prices 1000-1500 USD/ton cheaper than the European price level. Due to the risks of trading with a country in war, traders stopped making advance payments. Taking into account, among other things, such situation in foreign trade, purchase prices for raw milk in Ukraine are significantly lower than European prices.

In the third quarter of the year, raw milk prices are rising, world prices for dairy products are falling, but Ukrainian producers will still be able to export, because energy prices in Ukraine are much lower than in Europe, which gives a certain advantage in the cost of production.

The passing year will definitely be remembered by Ukrainians, and in particular by dairy farmers. There is great hope that thanks to the courage and heroism of the Armed Forces of Ukraine, as well as dedication of milkmen, when the DAIRY BUSINESS conference is held next year, we will already be able to state the deoccupation of all our territories, restoration of the cow herds, the increase in production of milk and dairy products, the return of migrants home and significant improvement of material condition of all Ukrainians who will consume a lot of dairy products.

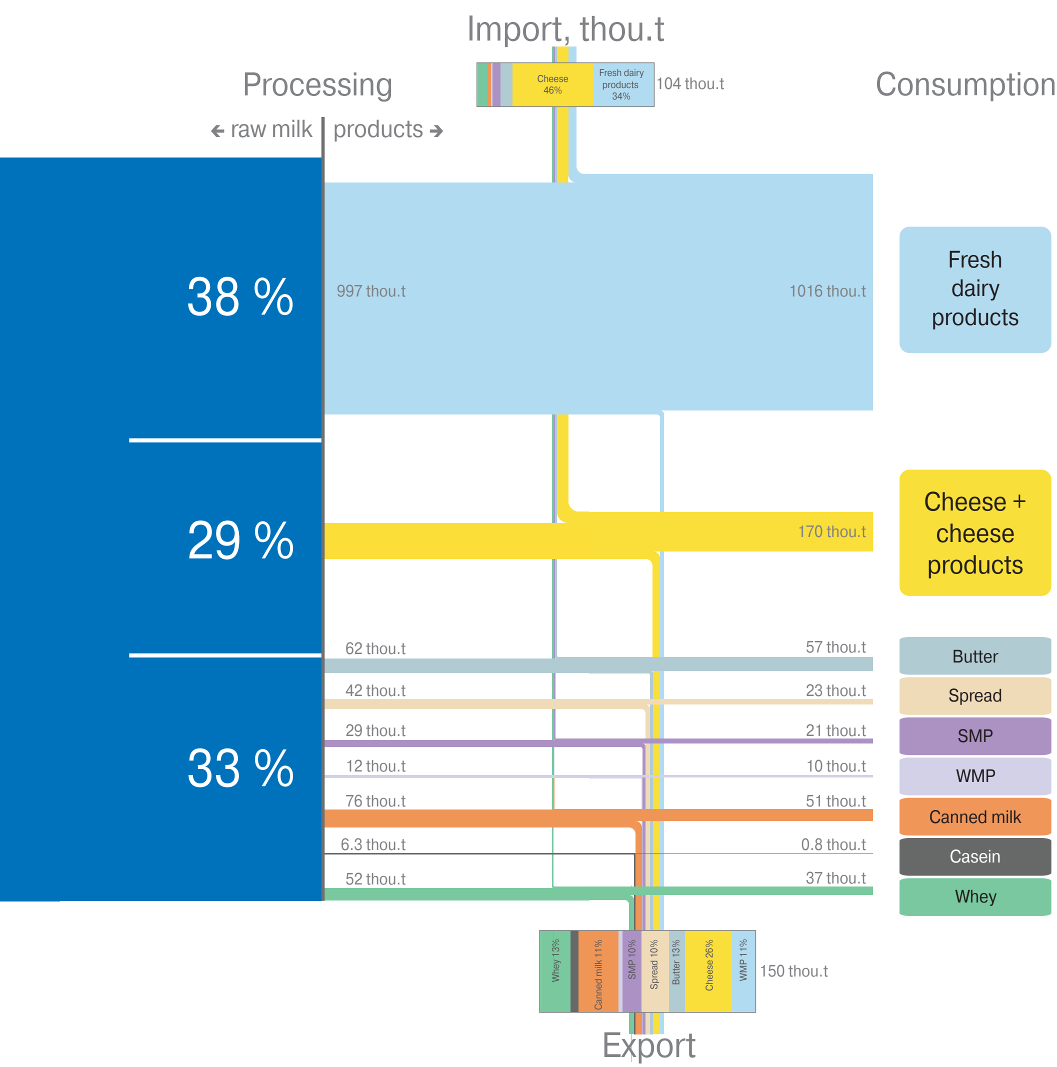
Glory to Ukrainian Armed Forces! Glory to Ukraine! Glory to milkmen!

# BALANCE



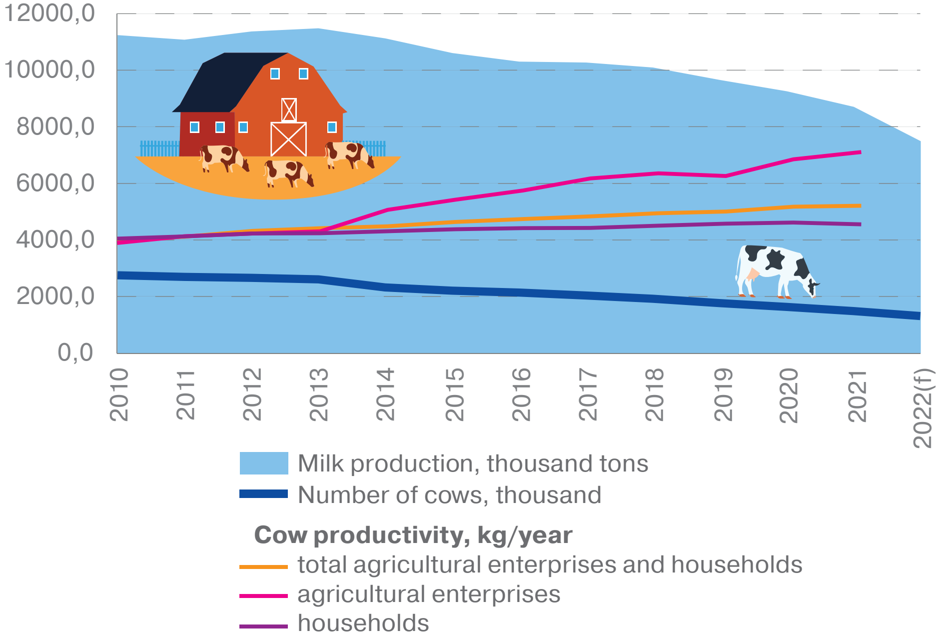

*Data of 2021 without inventories*

*The data sources used for this booklet graphs – statistics of the State Statistics Service of Ukraine and Infagro analytics*


Import, thou.t
Cheese 46%
Fresh dairy products 34%
104 thou.t
Processing
← raw milk
products →
Consumption
38 %
29 %
33 %
997 thou.t
1016 thou.t
Fresh dairy products
170 thou.t
Cheese + cheese products
62 thou.t
57 thou.t
Butter
42 thou.t
23 thou.t
Spread
29 thou.t
21 thou.t
SMP
12 thou.t
10 thou.t
WMP
76 thou.t
51 thou.t
Canned milk
6.3 thou.t
0.8 thou.t
Casein
52 thou.t
37 thou.t
Whey
Whey 13%
Canned milk 11%
SMP 10%
Spread 10%
Butter 13%
Cheese 26%
WMP 11%
150 thou.t
Export

# RAW MILK

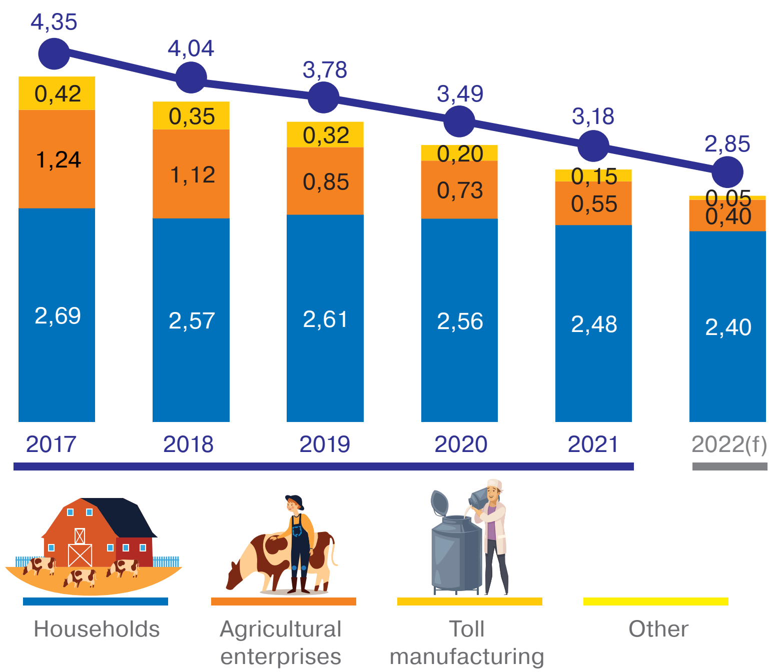
## Livestock. Cow productivity. Milk production




● Despite the significant reduction in the number of cows, industrial dairy farms have not shrunk milk production. This became possible solely due to investments in cows productivity. In leading farms, cows productivity has already reached the European level.

# DAIRY PROCESSING. MILK PROCUREMENT 2017–2022

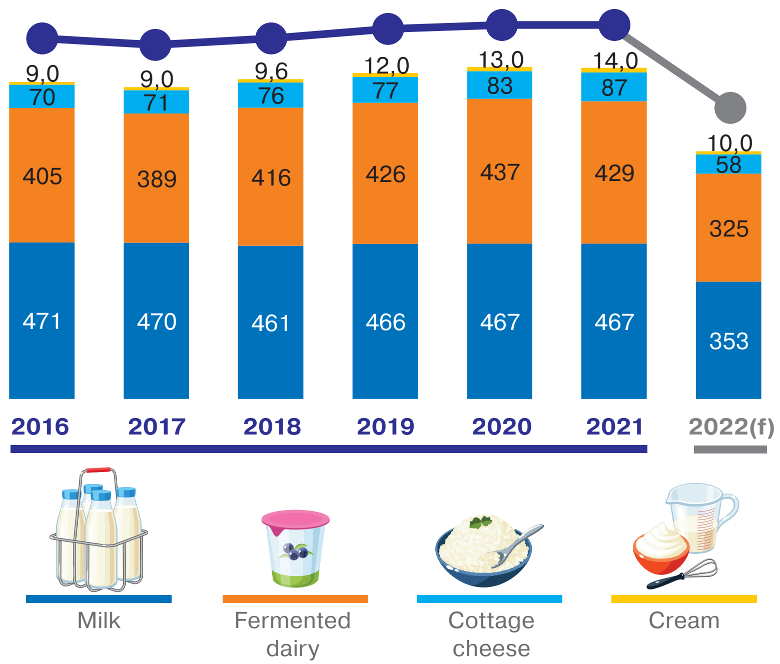
## MILK PROCUREMENT BY CATEGORY OF SUPPLIER
million tons/share




- Over the past 5 years, there has been a stable trend of reducing the volume of milk processing. Even in conditions of war, there was no sharp collapse of the trend line in the current year. This was only due to industrial dairy farms contribution, households will be reducing milk supply under any conditions.

# DAIRY PRODUCTION

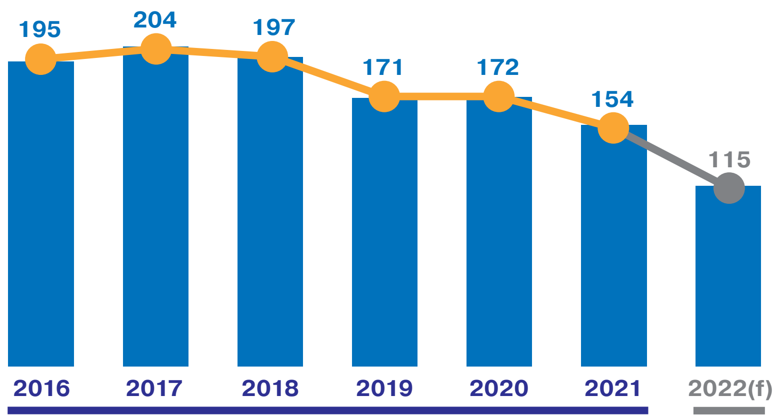
## FRESH DAIRY PRODUCTS
Production dynamics by product type (thou. t)




- In recent years production of fresh dairy products has been growing. The most noticable growth was observed in cottage cheese category.
- In 2022, there will be a sharp decline, as production is focused only on the domestic market, which has significantly decreased.
- The drop in production is occuring in almost all categories of fresh dairy products.

# DAIRY PRODUCTION

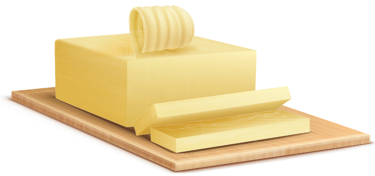
## RENNET CHEESE. CHEESE PRODUCTS
### Production dynamics (thou. t)

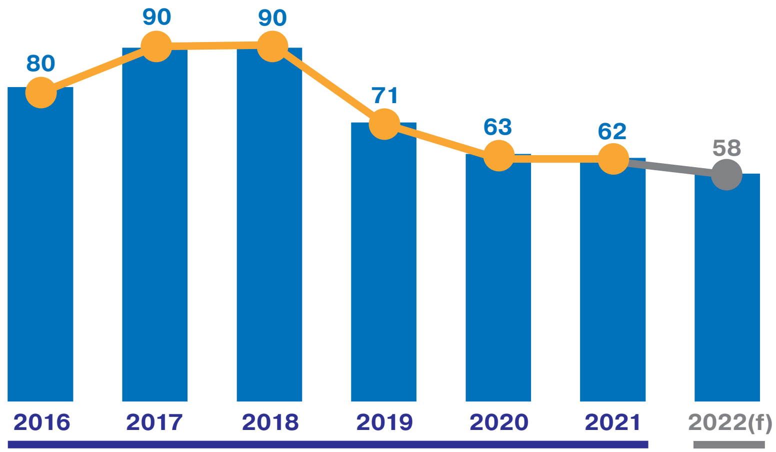



- Until 2022, production of cheese reduced mainly due to the influx of imports on the Ukrainian market.
- In 2022, imports decreased significantly, but consumption decreased even more.

# DAIRY PRODUCTION

## BUTTER
Production dynamics (thou. t)

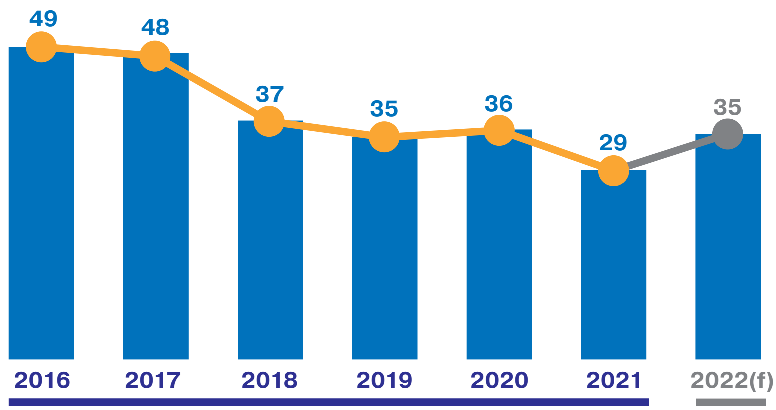





- If we disregard the dynamics of zero years, the peak of high butter production indicators occurred in 2017-2018. The growth was due to significant exports.
- In 2022, production of butter get decrease very significantly if new export opportunities to EU countries were not open.

# DAIRY PRODUCTION

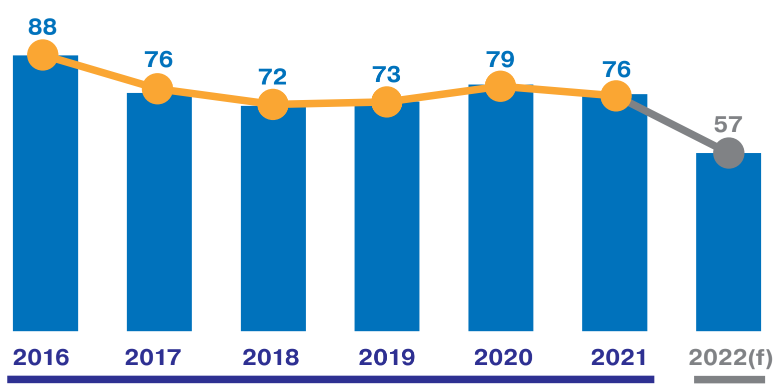
**SMP**
**Production dynamics (thou. t)**




- In recent years production of skimmed milk powder, as well as that of butter, reached its peak in 2017-2018 followed by a sharp decline.
- In 2022, production of SMP will increase. Dairies began to direct surplus raw milk more often to production of this product in combination with butter for further export.

# DAIRY PRODUCTION

## CANNED MILK
### Production dynamics (thou. t)

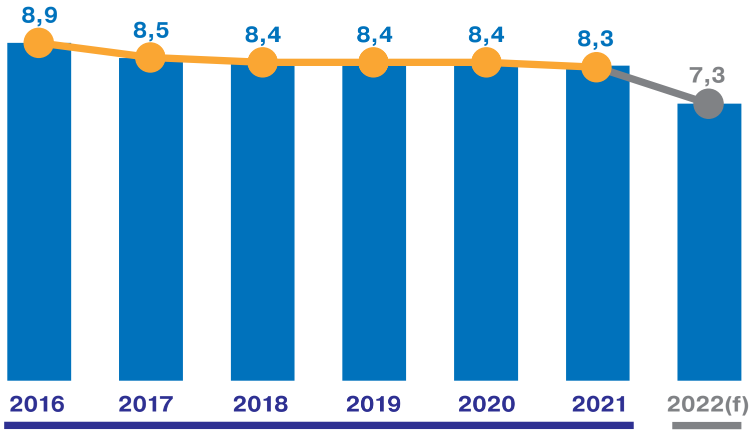



- In previous years, the output of canned milk was consistently high due to significant exports.
- In 2022, export opportunities are much smaller and production of condensed milk will significantly decrease.

# CONSUMPTION

## TOTAL DAIRY CONSUMPTION IN MILK EQUIVALENT

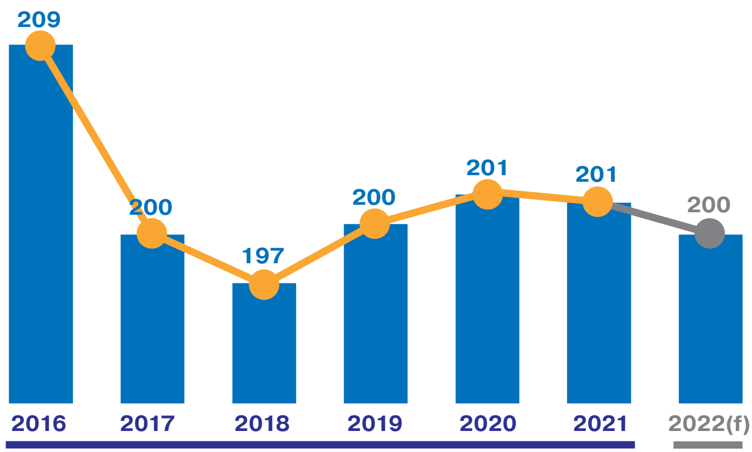
### DYNAMICS OF DAIRY CONSUMPTION
(million tons)

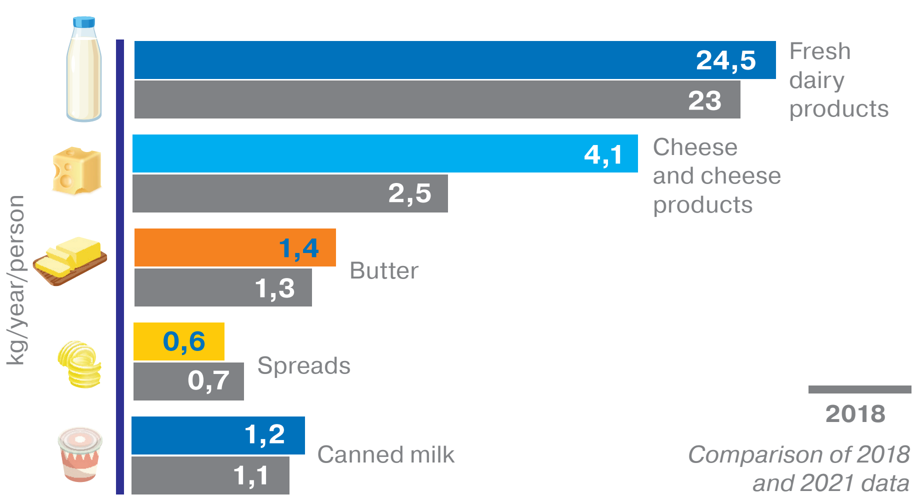



- In recent years consumption of dairy products was relatively stable.
- In 2022, it will significantly decrease, but only in general. On a per capita basis, the decrease will be insignificant.

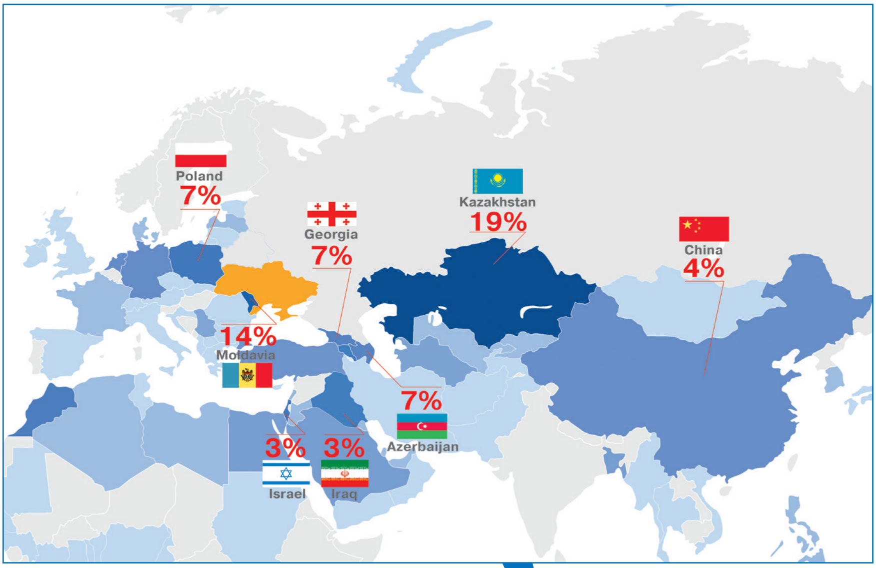
# CONSUMPTION
## PER CAPITA

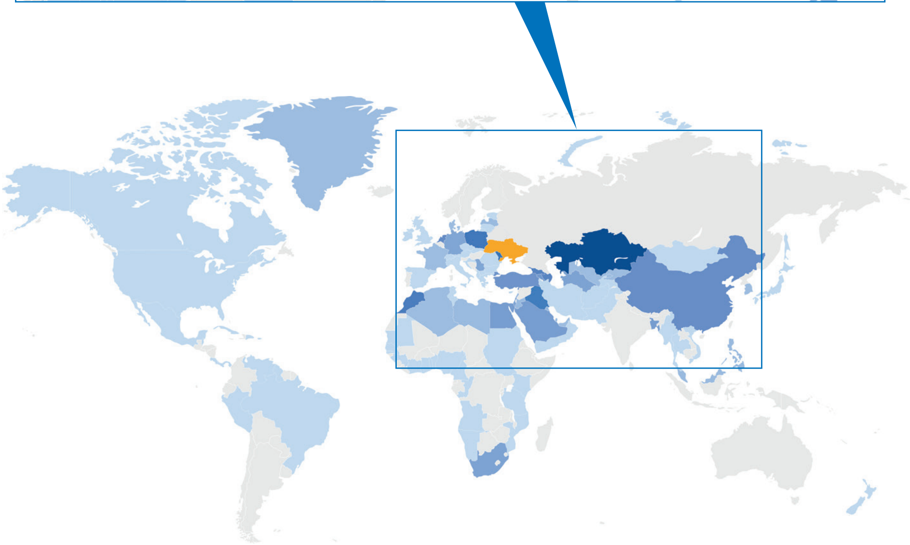
### DYNAMICS 2015–2020
### (kg/year/person)



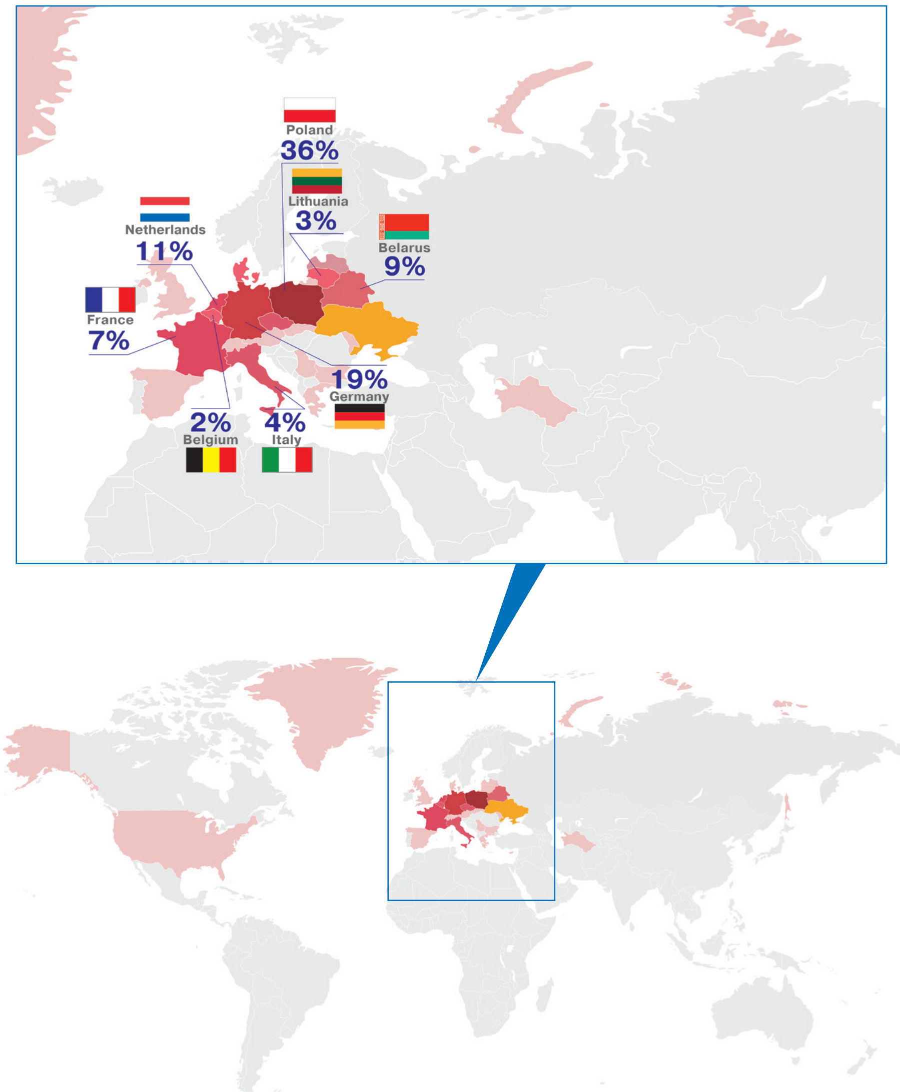



# DAIRY EXPORT 2021



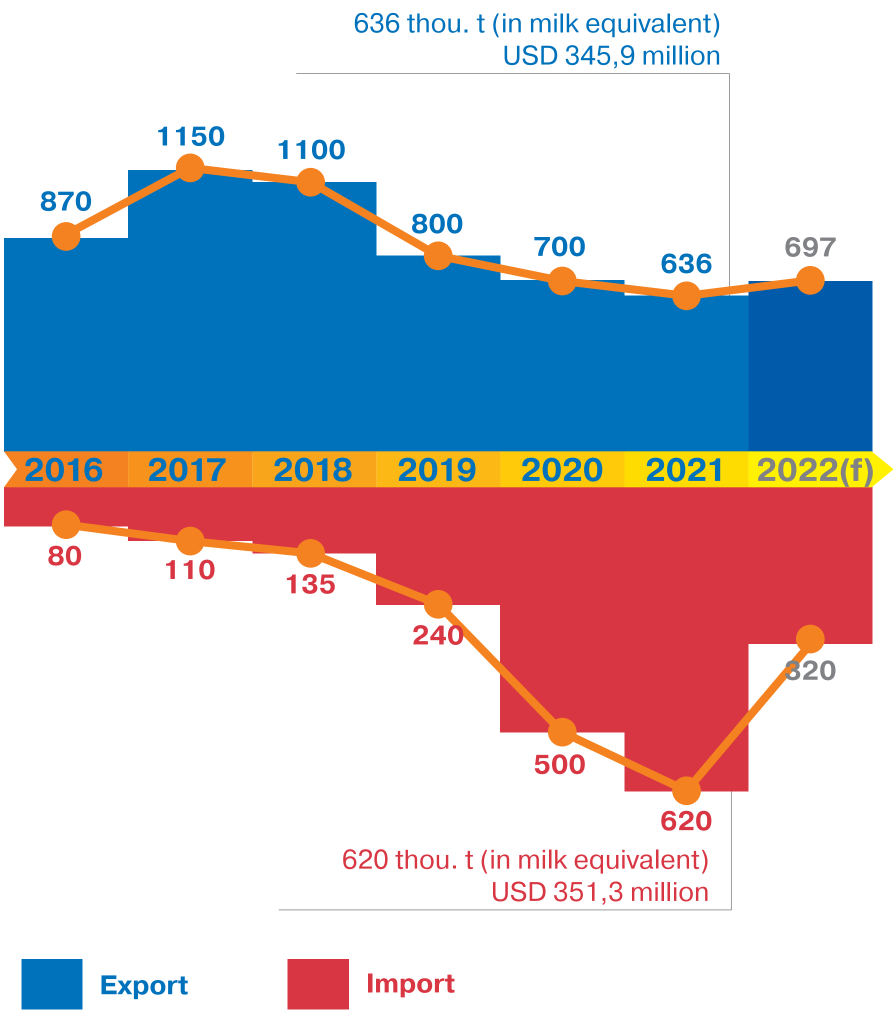



# DAIRY IMPORT 2021

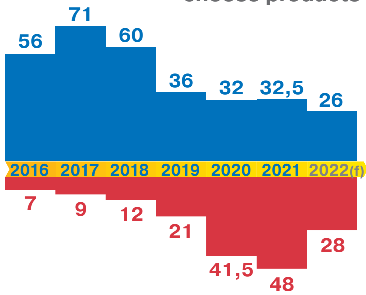


# DAIRY DYNAMICS
## EXPORT AND IMPORT

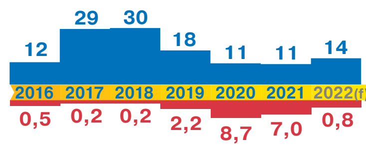
### TOTAL EXPORT AND IMPORT IN MILK EQUIVALENT (thou. t)



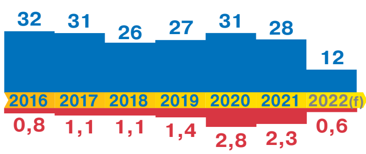
Cheese and cheese products



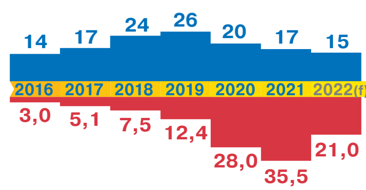

Butter



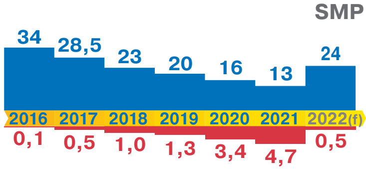

Canned milk



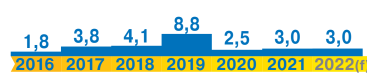

Fresh dairy products



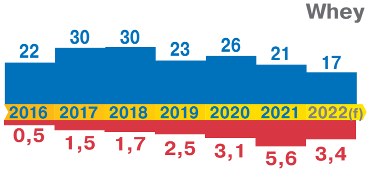

SMP



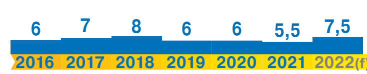

WMP




Whey



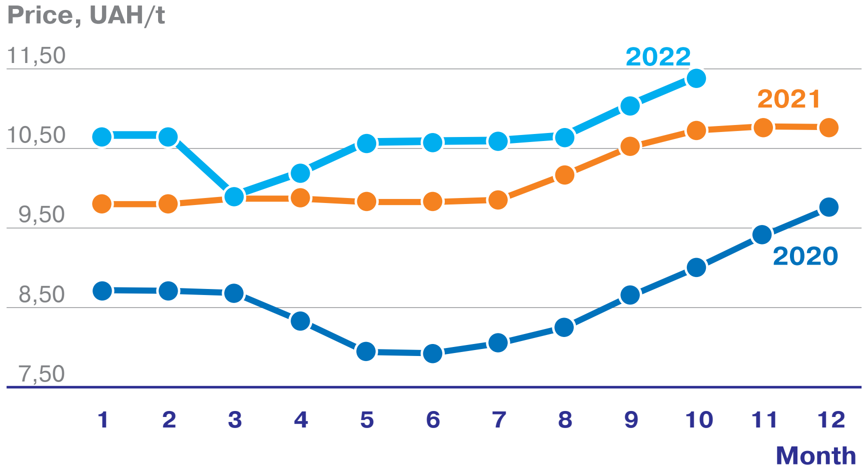

Casein



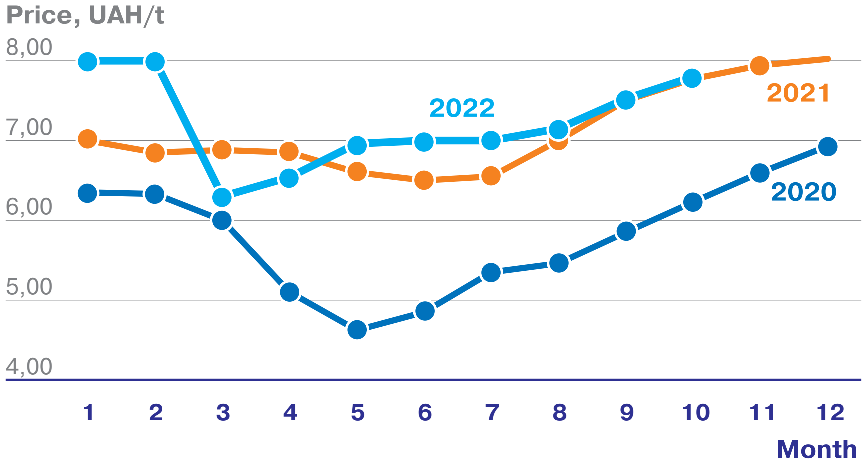

Date in thou. t

# PRICES
## MILK PROCUREMENT

### RAW MILK
### Dynamics of purchase price



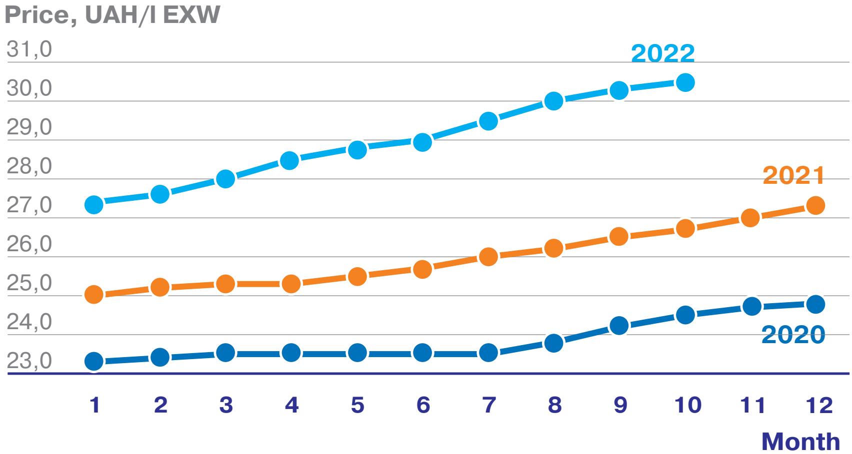

### RAW MILK
### Comparison of prices recalculated for basic milk indicators



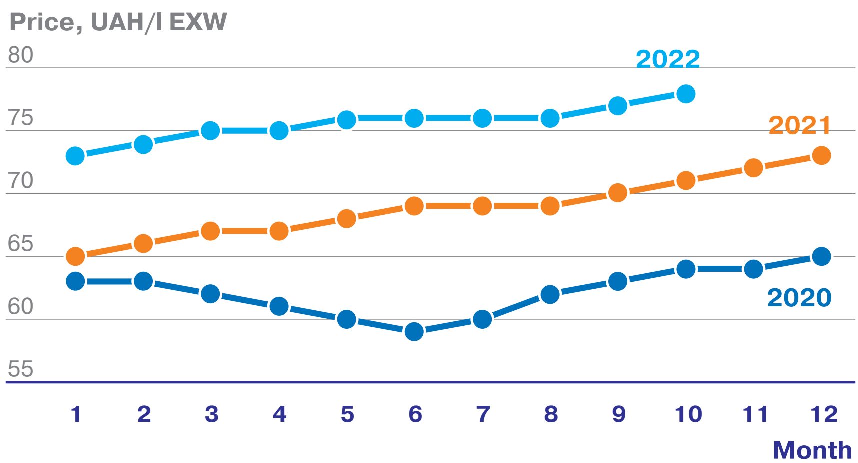
# PRICES

## DOMESTIC SALE DAIRY PRODUCTS

### PACTEURIZED MILK (2,5%, POUCHES)
Dymanics of the wholesale prices

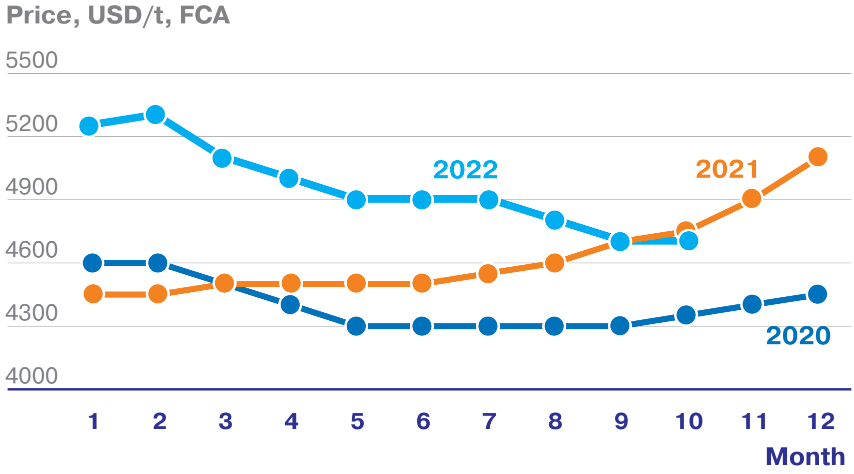



### SOUR CREAM (15%, POUCHES)
Dymanics of the wholesale prices

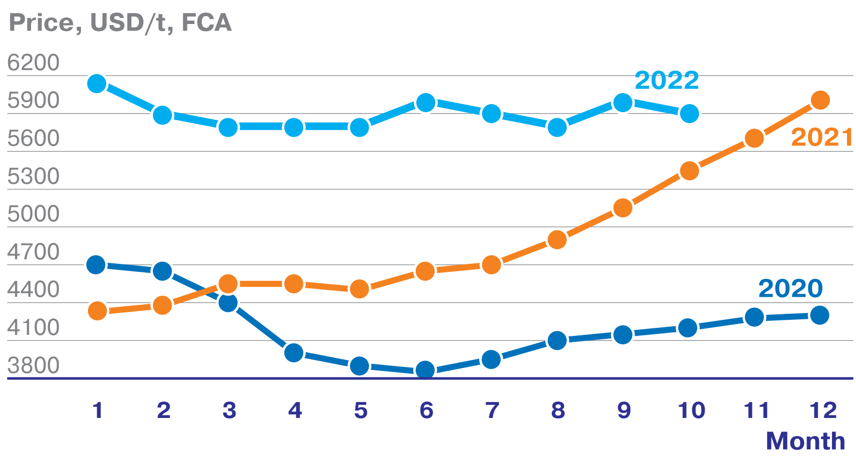


# PRICES
## KEY DAIRY EXPORT PRODUCTS OF UKRAINE

### CHEESE («ROSIJSKY»)
Dynamics of export prices



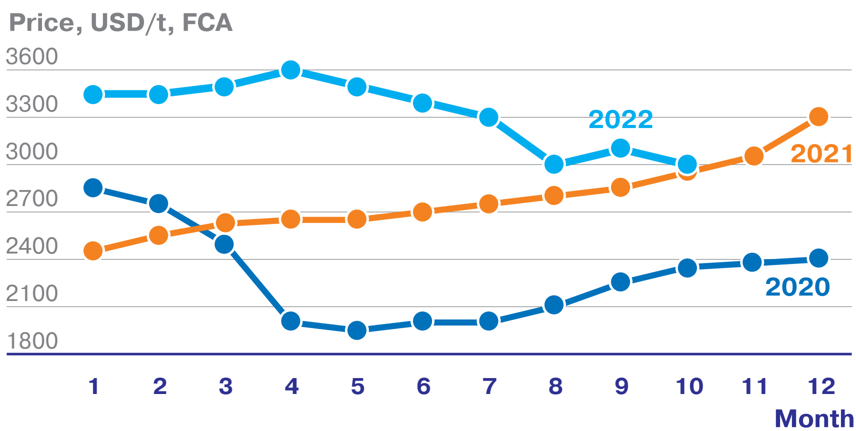

### BUTTER, 82%
Dynamics of export prices



# PRICES

## KEY DAIRY EXPORT PRODUCTS OF UKRAINE

### SMP
### Dynamics of export prices




### WHEY POWDER
### Dynamics of export prices