

USDA Foreign Agricultural Service

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Global Agricultural Information Network

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Ukraine

Exporter Guide

In Anticipation of Recovery

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Report Highlights:

The sudden drop in consumption experienced in 2008/09 was followed by stabilization in 2010. Agricultural and food product markets were neither falling nor growing in 2010. The Ukrainian retail and food processing sectors are surviving difficult times. Ukraine is the second largest market for US products among the former Soviet Union countries after Russia. The trading environment remains complicated and non-transparent. Potential exporters are advised to secure an experienced Ukrainian partner with established contacts who is capable of navigating the myriad obstacles facing imported agricultural products.

Post:

Kiev

SECTION I. MARKET OVERVIEW

Macroeconomic performance and other indicators

Despite a lack of economic reforms throughout the 2000's, in 2010 Ukraine's macroeconomic indicators had stabilized, creating a good basis for future economic growth. The stabilization came after a significant economic decline caused by loose domestic financial policies and the world financial crisis. Ukrainian trade in food products developed rapidly over the past 7 years. In the past this growth had been driven by a strong economy and by an increase in consumer incomes. The October 2008 financial crisis ended these rapid expansion trends and opened a period of new types of developments in Ukrainian agricultural and food markets. Ukraine's currency, the Hryvna (UAH), lost 63% of its value against the US dollar before stabilizing in the early fall of 2009.

In 2010 the country's expected GDP growth is around 4% replacing the 14.7% drop of 2009. The performance of the food sector is tied to performance of the rest of the economy and consumer incomes. Developments in 2010 had been turbulent: for political reasons the GOU has maintained expensive socially-oriented programs which are likely to be reduced or eliminated in 2011. Although these programs cushioned the impact of the financial crisis on the population they also postponed much needed structural reforms. Some initial steps aimed at limitation of state spending and of tax reform have been conducted in December of 2010. The GOU and international organizations agree on a modest 4-5% GDP growth forecast in 2011. Together with social program reductions, this forecast gives little chance for consumer income growth and recovery of the trade in food.

In 2011 financially sound retailers and food processors will continue their efforts at mergers and acquisitions (M&A), seeking to gain control over regional, small or heavily indebted businesses. Some foreign companies may use the situation to their favor looking for attractive assets among local players or acquiring attractive subsidiaries of bankrupt Ukrainian food producers and retailers. The financial condition of the majority of Ukrainian companies will remain difficult due to massive debt repayments.

Suppliers of food products to Ukrainian retailers will continue to face payment problems limiting sales and assortment. The share of foreign food products will remain relatively small as well as the number of distributors ready to work in an extremely difficult environment.

Real GDP Growth (Percent change from the Previous Year)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
-0.2	+5.9	+9.2	+5.9	+9.4	+12.1	+2.7	+7.3	+7.9	+2.1	-15.0	+3.7

* FAS/Kyiv Forecast

Despite certain stabilization, Ukraine remains in a recession. Low global demand for steel and chemical products, lack of credit and problems in the Ukrainian financial sector are still troubling. Some unsolved budget issues remain. Ukraine has one of the riskiest sovereign ratings in the world; its banking sector is unstable. Only agriculture has benefitted the overall economy with a 0.1% growth in 2009. Two years of good grain and oilseed crops and favorable world prices helped until the summer of 2010. The grain and oilseed sector face new challenges since the Government of Ukraine's imposition of export quotas in 2010. This drama is ongoing. Little product has moved into export channels in the fall and early winter of 2010. While low domestic grain prices favor the animal livestock sector and consumers of bread, the signal to investors is to proceed with caution.

Industrial Output (Percent change from the Previous Year)

2002	2003	2004	2005	2006	2007	2008	2009	2010*
7.0	15.8	12.5	3.1	6.2	10.2	-3.1	-21.9	+10.5

* FAS/Kyiv Forecast

Real household incomes fell 6.8% in '09 and the foreign exchange rate depreciated over 40% from the onset of the global crisis in the fall of '08. According to independent experts, the population saves in hard currency (dollars and Euros) given the steep devaluation. Ukraine's economy has a significant "gray" component, estimated by some to be from 30 to 40% of GDP. Some analysts say the shadow economy has grown even larger during the crisis. Inflation in 2010 is projected to be just a bit under 2009 level which was 9.3%.

Many Ukrainian banks are currently experiencing difficulties because of irresponsible expansionist policies exercised in recent years. They served as outlets pumping foreign currencies from parental banks (or short term syndicated loans) into Ukraine. The biggest portion of this currency inflow was used for consumption. Although many banks managed to avoid currency risks by providing loans in \$ US and EUR, the risks absorbed by the population and business happened to be extremely high. Abrupt devaluation of UAH from 4.6 UAH/\$ to 7.9 UAH/\$ undermined the population's ability to service loans in foreign currency. The share of non-performing loans in the banking system increased to alarming levels in 2009/10 threatening to destroy the entire financial sector. The GOU and the National Bank intervened recapitalizing and nationalizing some commercial banks, but in many cases help was nontransparent and arrived too late to make a difference. Some financial institution collapsed despite recapitalization, some teeter on the edge of bankruptcy.

The macroeconomic situation in the country is subject to constant changes. Trade risks increased greatly last year. Exchange rates, banking sector indicators and GOU policies are changing weekly. Political instability, however, has not vanished. An interested reader needs to refer to third party detailed analytical reports or to reports published by international organizations to get an understanding of the current situation and short term perspectives.

Ukraine possesses a sizable shadow economy that developed due to excessive tax pressures, nontransparent and frequently changing legislation, and the lack of law and contract enforcement. Crisis developments resulted in a gradual growth of the share of the shadow economy over 2008-10. Tax reform begun in late 2010 may worsen the situation, especially for small and medium size enterprises. Experts estimate the size of the parallel shadow economy to be between 50 and 60 percent of the official economy. Widespread corruption became a serious problem in the late 1990's. The country is ranked 134 out of 178 on the 2010 Transparency International Corruption Perception Index scoring 2.4, which is the same as in the previous year (10 = zero corruption level).

As of October of 2010, the population of Ukraine was estimated to be 45.8 million, making it the second largest consumer market in Central and Eastern Europe after Russia. Ukraine's population is characterized by the increasing number of elderly and a slowly decreasing population. The size of the official labor force is stable at 20.2 million. In 2010, the official unemployment rate floats around 9.5%, but experts point out that the actual number is higher due to unrecorded unemployment, especially in rural areas. Stabilized real incomes and demand drove the stabilization in the domestic consumer market.

Ukraine joined the World Trade Organization (WTO) on May 16th of 2008, decreasing most agricultural import duties to previously negotiated levels. The country is also bound by international agreements on Technical Barriers to Trade and Sanitary and Phytosanitary measures.

Because of relatively low incomes and a nearly 60% currency devaluation in 2008-10, the sale of the vast majority of U.S. food products available on the Ukrainian market is limited. Most U.S. products are of premium quality and value added and found in some niche markets frequented by wealthy consumers (1.5-1.8% of the Ukrainian population) and the growing middle class (13-17% of the population). Concomitantly, the rapid development of the Ukrainian food processing industry is opening the door for U.S. ingredient suppliers.

Ukraine is endowed with inputs critical to establishing a strong agricultural sector. If the government is able to sustain reforms designed to increase farm efficiency and stimulate growth, then Ukrainian agriculture will continue to grow. However, it is important to note that many policy makers are still actively attempting to decrease efficiencies by applying administrative controls to limit the increase of agricultural and food prices or limiting market development. Opponents to these measures are attempting to prevent implementation of many of these provisions because they will decrease farm efficiency, be a disincentive to investment, drain the national treasury and they're WTO inconsistent.

Retail trade

For most of the last decade a buoyant economy and strong growth in the local food retail sector contributed to the increase in sales of processed food products. The number of supermarkets and hypermarkets continued to expand up to the crisis. In 2002, the retail network was comprised of approximately 600 hypermarkets and supermarkets. By 2010, the number of outlets expanded significantly due to the overwhelming acceptance by consumers. Ukrainian supermarkets maintain the widest product mix and the largest proportion of imported products. Despite the rapid expansion of supermarkets in large urban areas, many food products continue to be sold through open-air markets and small convenience stores. 2010 FAS [Retail Trade Report](#) provides a detailed description of Ukraine's retail sector.

Foreign trade

Upon accession to the WTO Ukraine decreased its import duties to reasonable levels. However it still maintains cumbersome systems of veterinary and sanitary control, custom state standards and imported goods certification. Abolishment of most of these trade barriers is yet to be done to bring the country in compliance with WTO rules. All these non-tariff barriers to trade add to high distribution and shipping costs.

Because Ukraine signed free trade agreements with Macedonia, Russia and other countries within the Commonwealth of Independent States (CIS), food and agricultural products from these countries have price advantages over imported products from the United States. Despite the U.S. capturing a relatively small share of the trade, in 2010 U.S. agricultural products accounted for \$230 million. The opening of the Ukrainian red meat market in the end of 2008 and WTO accession further facilitated trade growth for U.S. products. (Note: These are official numbers that fail to capture the significant volume of products imported through the shadow economy.)

Ukraine is still in the process of modifying sanitary and phyto-sanitary standards to comply with international norms and standards. These changes were a requirement for accession to the WTO. Five laws are yet to be adopted to bring Ukrainian legislation in compliance with WTO rules. Some existing standards and veterinary regulations have complicated trade in U.S. ready-to-eat products, food ingredients, fish, poultry and red meats.

Despite the crisis, Ukraine will continue to be a major exporter of food and agricultural products, especially within the CIS region. Since the late 1990's, Ukraine has become an established supplier of grains and oilseeds to the world market. Most Ukrainian grain is sold to the Near East, Eastern Europe and EU countries. Once sizable, export of dairy products from Ukraine is decreasing due to a shrinking cattle population. Exports of processed and high value added products are not significant, but growing.

Advantages and Challenges Facing U.S. Products

Advantages	Challenges
Structural changes in consumption lead to greater demand for value added food products.	High trade risks due to volatile exchange rate and political instability in the country.
Investment growth in the food processing industry increases demand for additives and other ingredients not produced in Ukraine.	Strong competition in the local market from domestic producers and increasing imports from CIS (mainly from Russia), EU and Baltic countries.
Joining the WTO made access for imported goods easier.	Long-established consumer preference for domestic fresh products with no additives. Current veterinary requirements impede the import of red meat and biotech products.
Growth of international fast food and restaurant chains in Ukraine that use standard procurement systems and that source food ingredients from the U.S.	High distribution, shipping costs and technical barriers to trade.
The retail sector is looking for innovative high value added food imports.	Low awareness of U.S. products; extremely low presence of U.S. products on the shelves of supermarkets and discounters.

U.S. food and agricultural products traditionally suffer from low customer awareness in Ukraine. Several constraints and misconceptions have contributed to the small market presence of U.S. foods:

- U.S. companies have little reliable information about the country, current market opportunities and potential business partners.
- Minimum quantities offered for export are often too large for the Ukrainian market.
- A perception that persists among Ukrainian importers is that landed costs of U.S. products are higher relative to European products due to higher transportation costs.
- The perception that U.S. exporters are simply too far away to follow market trends and service the Ukrainian market.

SECTION II. EXPORTER BUSINESS TIPS

Local Business Practices and Customs

Entry Strategy

There is no single market entry strategy recommended for new-to-market exporters. First, the exporter should define whether Ukraine is a major market for the product, or if only occasional deliveries will be made. The following factors should be considered:

- Market product need, given consumers income trend and particular food sector development prospects (separate market research in order to assess product prospects maybe required);
- Availability of similar domestically produced products, (often Ukrainian producers are effective in building barriers to trade by lobbying the GOU, Parliament, veterinary or health inspection services).
- Calculation of the landed cost of a product in order to make price comparisons vis-à-vis competitors.
- Availability of similar products from EU or FSU suppliers. Also, comparative advantages / disadvantages of U.S. products relative to products from major competitors (e.g. quality, price, transportation expenses, packaging, labeling, etc.)
- Availability of a local distributor familiar with the product. It is advisable to initiate personal contact in order to discuss marketing strategies, funding for advertising, slotting allowances, BTL in-store promotions, tasting and sampling events. Suppliers may also want to consider trade fair participation to increase awareness of their products.
- Tariff and non-tariff regulations affecting the product. (Note: in some cases large Ukrainian food producers lobby tariff reductions for much needed ingredients and have the clout to settle veterinary or SPS problems should they arise.)

Currently, almost all U.S. food and agricultural product exporters work through a Ukraine-based subsidiary, importer or through the procurement service of the buyer (the latter is the most convenient if there are only 2 or 3 potential buyers). Local distributors are more flexible, usually have established marketing channels and can provide local customers with short-term (5-30 days) credits in kind. Recently due to crisis developments in Ukraine's retail sector credits in kind tend to grow in length from 21-30 days (in average 3 years ago) to 6 months in 2009. Many Ukrainian retailers are surviving on the expense of importers and local distributors. Due to unavailability of other sales channels for many imported products distributors have no other option but to concur on new terms. Trend for financing of the retailers from the distributors' pocket was also notable before the crisis, but now this practice became widespread.

Importers are also responsible for the entire logistical chain and inland transportation. Due to frequent changes in Ukrainian legislation, non-transparent custom clearance rules, SPS and veterinary procedures and corruption, it is recommended that the Ukrainian partner handle all logistics. Some Ukrainian distributors have already established representative offices in major exporting countries.

U.S. companies should approach potential Ukrainian partners with extreme caution. While information on Ukrainian companies has improved, there is still a significant dearth of background data and credit histories on potential Ukrainian distributors. This presents the greatest obstacle to finding reliable, competent distributors. In order to obtain a due diligence report on a potential Ukrainian partner, a U.S. company is advised to contact either a law firm or an internationally accredited financial service company. It is advised that all U.S. companies consider legal counsel before and while doing business in Ukraine. Ukrainian laws and regulations are vague and open to interpretation, providing ample corruption opportunities for officials at every bureaucratic level. U.S. businesses are advised that establishing a partnership with a Ukrainian company is a challenge that is beyond the control of the U.S. partner and his legal advisors.

If the Ukrainian market looks promising, establishing a representative office is recommended to deal with buyers directly. Personal relationships are very important in Ukrainian business practices and often problems cannot be effectively resolved over the phone. It is a very common practice in Ukraine to purchase inputs directly from the producer. Even if the exporter's policy requires importers to work through the foreign-based distributor, most Ukrainian partners will still attempt to contact and work directly with the producer. In the past, many U.S. companies dealt with Ukrainian partners through a Russian-based representative office (usually Moscow). This is no longer the case because trade regulations and laws that were once common between the two nations differ more and more. (Note: the Ukrainian food ingredient market is small at the moment and relatively few products can justify a representative office in Kyiv).

Select U.S. products may also enter the Ukrainian market through a different route; via a Ukraine-based U.S. intermediary able to manage the distribution scheme more efficiently than a Ukrainian importer. This is vital if the Ukrainian importer lacks technical skills and expertise in product promotion.

Exporters of high value-added products must note that larger Ukrainian retail chains use their own procurement centers. Few wholesalers undertake nationwide distribution, and very few carry a complete range of products. In many cases, supplier choices are based on informal personal relationships and ownership ties, rather than driven by quality and price factors.

General Consumer Tastes and Preferences

Consumer preferences differ significantly among various income and age groups. Similar to other nations, young consumers tend to experiment with new products, but many of them remain at the "tasting level". Middle-aged and elderly consumers are much more conservative in their taste preferences and often treat new products with caution. Consumers of all ages and income groups are highly patriotic in their choices and often will not buy an imported product if a domestically produced one of comparable price and quality is available.

All categories of consumers analyze the content/ingredients of products with great care. There is widespread belief that preservatives, stabilizers, colorants and flavoring agents are not healthy and one should avoid them if possible. However, consumers pay little attention to fat, sugar or protein content. The trend for healthier food consumption (low fat and reduced cholesterol, sugar free) is not yet evident in Ukraine. The diet of many low-income people is not nutritionally balanced and health concerns are found only in big cities, where consumers are wealthier and can afford more expensive products.

Biotech products have a negative public perception in Ukraine and the government has imposed compulsory labeling

although one will not find labeled products in the supermarkets. There are no registered GM plant varieties for human consumption and there are only intentions to have them registered for animal feed. Ukrainian legislation on biotechnology in general is in development.

With average per capita income still quite low, Ukrainians spend approximately 60% of their incomes on foodstuffs. Prepared home meals are preferred over dining out. Women account for 49% of the total work force (20.6 million people) and contribute to the increased demand for meals consumed away from home, easy to cook and ready-to-eat products. The market trend for frozen and convenience food is relatively new in Ukraine, but with a large proportion of two-income families and growing incomes of city dwellers this market segment is expanding very rapidly.

Almost 33% of the population lives in rural areas. Their incomes are quite low and many people rely on subsidiary household plots to provide staple foods (potatoes, vegetables and fruits). Many rural families sell vegetables, meats and traditional dairy products in open-air markets. The majority of their consumers are low income and elderly (these two categories overlap considerably).

Food Standards and Regulations

For an extensive explanation of Ukrainian Food and Agricultural Import Regulations and Standards, a prospective exporter should refer to FAS Kyiv's [FAIRS Report](#), and [Subject FAIRS](#) report, which are available on the FAS/USDA web site. An abbreviated review of Ukrainian import regulations and food standards is provided below.

Ukraine maintains a complicated food safety control system that is supervised by various state agencies, which often have overlapping functions. The following agencies of the Government of Ukraine (GOU) are involved in assuring the safety of domestically produced and imported food products, and animal and plant health issues:

- State Epidemiological Service establishes food safety standards and is responsible for all aspects of food safety;
- State Committee for Veterinary Medicine is responsible for animal health, safety and wholesomeness of meat, seafood and other products of animal origin;
- Main State Phytosanitary Inspection Service is responsible for plant health issues;
- State Committee of Ukraine on Technical Regulations and Consumer Policy is responsible for compliance of food products with existing quality and safety standards;
- State Ecological Inspection Service is responsible for radiological and environmental control.

Ukrainian legislation is subject to unpredictable and sporadic changes; therefore, it is difficult for foreign suppliers to be aware of the most current food safety regulations. U.S. suppliers should work with experienced importers who are familiar with the latest import requirements. Currently, certain standards used in Ukraine are inconsistent with standards established by international standards setting bodies, and with internationally accepted trade practices.

Imported food products must meet the same requirements as domestically produced foods. While enforcement of food safety norms has been generally effective, outdated nutritional norms have not been rigorously enforced.

All food products sold in Ukraine must have Ukrainian language labels attached to the package that contain the following information:

- 1) Name of food product;
- 2) Nominal quantity of food product (weight or volume in metric system measurement);
- 3) List of all ingredients found in the food product, including other food products and food additives used;
- 4) Nutritive values and energy;
- 5) Expiry date, or the date of production with indicated shelf life;

- 6) Storage conditions;
- 7) Name, country, address of producer, packer, exporter and importer of the product;
- 8) Terms of use (if any);
- 9) Presence or absence of genetically modified organisms (GMO) - please note text explanation on below;
- 10) Consumption of food product warnings for certain consumer categories (children, pregnant, senior people, athletes etc.)

This information must be present even on the packaging of products not intended for retail trade. Stick-on labels that meet Ukrainian food safety law requirements are allowed and can be affixed on the side or over the standard US label. Customs authorities require compliance with the Ukrainian labeling requirements prior to granting final clearance to the product. Most importers prefer to deal with products that already contain labels and meet Ukrainian requirements although some chose to attach labels in the customs licensed warehouse in Ukraine. Health claims and statements targeting particular consumer groups (children, pregnant women, athletes) are prohibited without prior approval from the Ministry of Health.

The product's expiration date (or shelf life indication containing the date of production) must appear on the label. Although Ukrainian food safety legislation allows producers to determine the shelf life of the product, it is highly advisable to verify with the importer whether it meets existing Ukrainian technical regulations (GOST or DSTU).

According to the GOU Resolution #661, any food product that contains more than 0.9% of GMOs, or if any ingredient in a food product contains GMOs as well as food products that do not contain any GMOs but are produced at least in part with agricultural products that contain GMOs and the total weight of GMO or GMO derived products is a single food product package exceeds 0.9% of its total weight, this food product has to be labeled "Contains GMO". If a single package of food product contains no GMOs or less than 0.9% GMOs, it has to be labeled "No GMO." Products without relevant labeling are not permitted for sale in Ukraine and are a subject to confiscation and fines. GMO food product labeling is a responsibility of the producer/supplier. Stick-on labels may be used.

Ukraine maintains a positive list of food additives and establishes its own maximum residue limits for chemical and biological contaminants in food products. Recommendations from the CODEX Alimentarius Commission, an international food safety standard setting body is considered in approving new food additives; however Ukrainian authorities conduct their own risk assessment for each new substance. Importing food products that contain food additives that have not received official approval is prohibited.

Some imported food products are subject to mandatory certification in Ukraine. The applicant (either exporter or importer) is responsible for the cost of the certification. There are usually two options available to exporters and importers depending on the value and the frequency of shipments. The first option envisions compliance of a foreign facility to existing Ukrainian norms and regulations on quality and safety. The supplier receives a certificate of conformity valid for two-to-three years that avoids having to certify each shipment. The second option involves certification of each product shipment with mandatory laboratory tests upon arrival in Ukraine.

All food products of animal origin are subject to veterinary surveillance and control in Ukraine. A prospective U.S. exporter should refer to FAIRS GAIN Report for more information even if the exported commodity is not subject to veterinary controls in the United States. A Ukrainian state veterinarian conducts inspections at the border for canned products that contain any amount of meat or animal fat, animal feeds of plant origin (such as soybean meal), ready-to-eat seafood products, and frozen fish. The report also contains multiple reference lists. Legislation slated for January 2010 threatens to allow only vet-authority approved plants to export to Ukraine.

General Import and Inspection Procedures

Import regulations in Ukraine are similar to regulations found in other countries. All applicable duties and taxes are

collected by customs authorities upon clearance of imported goods at the border, unless the cargo is forwarded to a bonded warehouse. Almost all Ukrainian import duties are calculated on *ad valorem* basis. According to Ukraine's WTO obligations, the only commodity subject to a quota restriction is raw sugar.

Agricultural and food products imported into the customs territory of Ukraine may be subject to sanitary testing, certification, radiological, veterinary and/or phytosanitary inspections. Every shipment arriving in Ukraine is inspected and sampled regardless of the statements made in the accompanying health certificate. Custom clearances and co-related inspections are fee-based and are viewed by many regulatory agencies as a source of additional revenue. Ukrainian Customs Service often rejects the declared custom value of imported product as the basis for custom duty calculations. In this case importer should be ready to use appeal procedure and litigation in the court. The testing procedure takes up to 7 days, which makes the import of some highly perishable products difficult at best or impossible.

Due to small import volumes from overseas, U.S. exporters should be prepared to ship mixed product loads in one container. A separate health certificate is required for each homogenous product lot within the container. There may be specific import requirements (alcohol, tobacco, etc.) or prior notice requirements for certain products. At the planning stage, exporters are advised to verify with their importer what types of controls are applicable to the product. Any food product (except those produced for personal consumption), food raw materials and agricultural products are prohibited entry into Ukraine without documented evidence of their quality and safety. Control over adherence to the procedure of food and agricultural product imports rests with the Customs Service of Ukraine. The product will not be granted final clearance until all legal procedures are met. The following documentation is required for customs clearance:

- Copy of a contract and an invoice;
- Bill of lading;
- Freight custom declaration;
- Certificate of conformity (if applicable);
- State sanitary and epidemiological expertise certificate, (or certificate on state registration of special food products);
- Veterinary certificate (if applicable);
- Import permit and original phytosanitary certificate (if applicable);
- Manufacturer's Certificate of Quality.

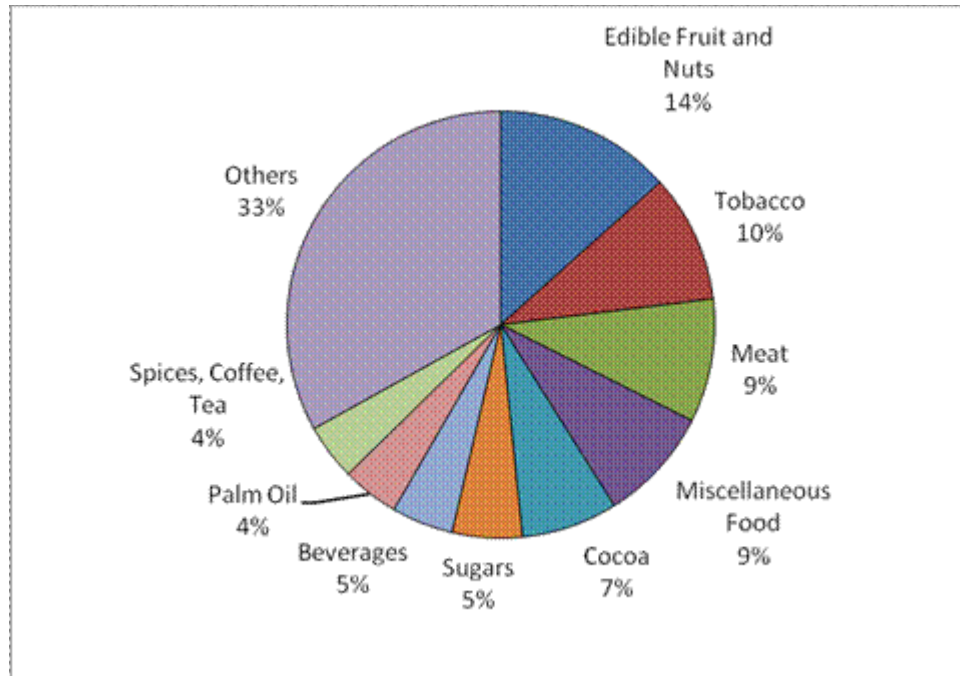
Ukrainian is the only official language recognized in Ukraine. All documents must be bilingual, submitted in Ukrainian or be accompanied by an official translation.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Competition

For the past six years, Ukraine has been a net exporter of agricultural and food products (HTS 1-24 groups). In 2010, total exports of agricultural products from Ukraine are expected to reach \$8.2 billion dollars (9% drop from 2009), exceeding agricultural imports (\$4.9 billion dollars).

Import of Agricultural Products in 2010



Source: State Statistics Committee of Ukraine

The development of the food industry in Ukraine has led to a significant increase in the use of raw materials and additives for foodstuff production and comprises the majority of Ukrainian imports. For more information on opportunities in Ukraine's food processing industry, please refer to FAS Kyiv's report: UP7003 [Food Processing Ingredients Sector Report](#) found on the FAS homepage.

In 2005-2010, imports of the following commodities experienced the highest rates of growth:

- Food additives (stabilizers, emulsifiers, flavorings, proteins, pigments, ferments, albumin, oil-and-fat mixes, modified starch etc.)
- Palm oil or fractions
- Fish
- Swine, live except pure-bred breeding
- Grape wines
- Cocoa powder
- Spirits

Some imported soya products are used as ingredients in food and compound feed industries (such as soya meal and flour, soya protein concentrates, lecithin, vegetable oil mixes and isolates on soya base for confectionery, dairy and meat industries).

Food products imported from EU and CIS countries are now the major competitors for U.S. commodities in Ukraine and will continue to be in the foreseeable future. Below is a list of the top 10 U.S. export commodities experiencing the highest import growth rate in Ukraine (for 2005-2010 with turnover over \$5 million):

- Meat (predominately poultry)
- Seeds for Planting (Corn Hybrids)
- Miscellaneous food
- Edible Fruits and Nuts
- Preserved Food (mostly Juice Concentrates)
- Tobacco
- Pet Food
- Fish and Seafood (Whiting and Hake)

For many staple products, domestic production meets demand. Imported food and agricultural products have difficulty competing with domestic products due to the high cost of foreign exchange high import duties and generally efficient production of unsophisticated food products. Imports add to the variety of foods available on the market and also include products that are either not grown in the country or for which domestic production is insufficient to meet domestic demand.

Retail Food Sector

Due to the quickly growing number of super- and hypermarkets in 2001-2010, experts estimate their market share at 43%, and it will continue to grow in the future. Traditional retailers in big cities are losing their clientele due to new and improved services that are provided by big retailers. Open-air markets and kiosks cannot compete due to low quality products (this is a major channel for uncertified and counterfeit goods), while traditional grocery stores cannot offer a wide assortment of products at low prices. Supermarkets are not completely driving out open-air wholesale markets and Soviet-type grocery stores, but forcing them to modernize equipment and marketing techniques.

Supermarkets, Hypermarkets

Their staff privatized the majority of retail outlets during the first wave of Ukrainian privatization in the early 1990's. Large trade centers with a self-service system (the Soviet counterpart to supermarkets) built in the time of the Soviet Union ceased to exist after the first year of Ukraine's independence. Later, individuals or businesses purchased these food stores. In order to survive, the overwhelming majority of these stores sold both non-food and food products.

The stabilization of the national economy helped to create the current retail structure. The first domestic supermarket chains emerged to satisfy the new and growing demand in early 2000s. These stores began to emulate western standards on floor space, product assortment, and quality of service.

The average floor space of a Ukrainian supermarket grew from 822 square meters in 2005 to 914 square meters in 2007 and 1200 square meters in 2009. The first Ukrainian mall – “Karavan” (is still classified as hypermarket by the State Statistics Committee) was built in Ukraine in 2004 with a total area of 13,000 square meters and total floor space of 8,000 square meters. According to Karavan's management, they built the hypermarket hoping to sell it to foreign operators/investors (supposedly to Auchan or Tesco), should these companies enter the Ukrainian market. The small floor space of many Ukrainian supermarkets is a result of limited capital and limited availability of buildings or land plots in proper locations suitable for such operations. Only Western investors and very few Ukrainian companies are capable of full-scale construction projects from the ground up.

According to supermarket owners, stock lists of smaller stores include 30–70,000 items. 80-90% of these items are of Ukrainian origin. Dairy and fish products, meat, bakery and spirits are widely represented. Supermarkets often cut their margins to attract as many customers as possible. The largest chain supermarkets use over 1,000 different suppliers represented by large wholesale companies, producers and importers. Local chains are adopting foreign practices and

standards, and introducing production quality control departments and distribution centers. Many supermarkets are open round-the-clock.

There are several factors contributing to the rapid success of hypermarkets and supermarkets in Ukraine. First, retail chains guarantee higher quality goods. Second, the majority of chains offer attractive prices through improved logistics and substantial supplier discounts in return for guaranteed large procurements. These advantages attract customers from traditional wholesale open-air markets and grocery stores. Third, supermarkets guarantee comfortable shopping conditions (free parking, etc.), additional discounts for regular customers (discount cards), and additional services for goods purchased (home deliveries, Internet shopping, etc.).

Due to the rapid market development and abundance of retail formats, local retail chains have had little competition from foreign companies. Today, Kyiv commands approximately one-fifth of all retail trade in food products conducted by specialized and non-specialized stores, as reported by official statistics. Meanwhile, according to some retailers these supermarket chains are only satisfying 45-50% of all demand. Operators agree that the market for larger stores will continue to develop in the near-term despite the economic slow-down. Now supermarkets do not compete with each other, but with traditional open-air markets. The latest trend in supermarket development is to locate these trade outlets in shopping malls, which reduces construction costs and attracts additional customers. Construction of movie theaters also opens new possibilities for supplying the “American way of life” (popcorn, soft drinks and different snacks).

Kiosks and Gas Marts

The number of kiosks, which were popular trade outlets in the early 1990's, has gradually diminished. The typical kiosk operates 24 hours a day and sells cheap alcohol, cigarettes and a limited number of food products. Limited floor space (usually 8-25 square meters) and a relatively wide stock list (on the order of 100-200 kinds of goods), as well as minimal required capital and operation costs ensures their existence. Competition from larger private stores and supermarkets that offered lower prices resulted in a reduction in the number of kiosks. They survive at road intersections, bus stops, underground stations, near open-air markets, in bedroom communities, and in rural areas. Kiosks offer a variety of the cheapest living essentials including food products. Lately, kiosks are becoming more specialized. For example, producers of meat and bakery products have opened kiosks to sell their own products near public transportation stops.

The number of modern gas stations continues to grow rapidly in Ukraine. Approximately 10-15% of all Ukrainian gas stations have stores that sell packaged food products. This includes mainly soft drinks, cookies, chocolates, and various snacks. These gas station stores account for 1-2% of all food stores. The service-store network is under development and is not viewed as a major revenue source by gas station managers. The developing network has good prospects and may increase its share of retail sales.

Chain Convenience Stores and Self-service Groceries

Chain grocery stores are not yet very common in Ukraine, although becoming more so. The shortage of suitable land plots makes many retailers consider smaller formats. The Fozzy Group is developing a network of Fora and Bumi-market grocery stores. According to management, the chain may slow down development of its Silpo supermarkets chain, but will not cut back on its Fora chain despite economic downturn. The Rainford group also has a network of 32 “convenience stores”. Their competitor in the Dnipropetrovsk region, ATB Corporation, has a network of 372 stores, although these stores are quite close to supermarkets in size. Usually groceries are located in suburbs, offer a narrow product range and have limited floor space. These new groceries are quickly replacing the Soviet-style food stores. The average floor space varies from 300 to 500 square meters. Stock lists include an average of 1,500 to 3,500 items. Grocery outlets have become rather popular among pension-age consumers who prefer to shop close to home. Retirees often make small purchases throughout the

week. These outlets also target consumers with below average incomes and who generally purchase goods daily. These products tend to have a short shelf life (bread, dairy products, fruits and vegetables, etc.). Market analysts note that convenience stores lack regular customers and their market share is small. Nevertheless, grocery stores are very successful in small Ukrainian towns.

Traditional Outlets: Independent Grocery Stores and Open-Air Markets

Soviet-style stores with behind-the-counter sales (traditional groceries) are quite common in Ukraine. Some of these groceries are situated in central districts selling food products to office employees during the workweek and to a small number of urbanites. These stores have often been taken over by chain convenience store companies and converted into modern self-service convenience stores. Other traditional grocery stores survived in suburban communities in large cities. These stores are likely to leave the market due to fierce competition with supermarkets and modern convenience stores. They are losing clientele due to their limited product line, higher prices, poor customer service, and unprofessional vendors. In order to survive, many offer round-the-clock operations and lease some floor space to sellers of industrial goods (DVD and CD sales) and services (photo development). Some are operating successfully in distant small districts of large cities and small provincial towns where the construction of supermarkets or modern chain convenience stores is economically unjustified.

Grocery stores, especially those operating 24 hours a day, can be of certain interest to potential U.S. exporters. These outlets may become outlets for less expensive food products, manufactured abroad with a long shelf life: alcohol drinks, assorted snacks, confectionery products, meat goods, canned goods, goods for elderly people. The overwhelming majority of these stores (except small ones with 150-200 square meter floor space) procure products through wholesale companies. Smaller ones buy products in Cash&Carry stores or from large wholesale open-air markets.

According to experts' estimates, in 2009, approximately 20% of food products in Ukraine were sold through this channel. For meat products this indicator reached 90%. These trade outlets are leading sellers of vegetables, fruits, meat, honey and dried fruits. At the same time, sales of dairy products, sunflower oil, and alcoholic drinks are gradually moving from open-air markets to outlets of other types. Open-air markets provide poor customer service, lack storage equipment and often sell low quality products for a price that is often higher than in supermarkets.

HRI Food Service

The HRI sector in Ukraine remains small, but is developing quite rapidly. In 2010, the number of restaurants, cafes, bars and other HRI institutions in Ukraine exceeded 30 ths. New fast food outlets and restaurants with international-style cuisines have begun to alter the structure of the food service sector. The market niche for expensive and elite restaurants is saturated, so the lower cost mass market is developing. Existing restaurants are divided into three categories: fast food, canteens and cafés, mid-level restaurants, and restaurants with "high-quality cuisine". The majority of outlets belong to the first group. With over 20 million visitors in 2010, tourists have become the major driving force behind the success of the HRI sector and the introduction of new food products to the Ukrainian market. Even more tourists are expected to attend the country in 2012, when Ukraine hosts the European Soccer Championship.

In addition to fast food establishments that offer pizzas, hot dogs and hamburgers, outlets of various ethnic cuisines, such as Mexican, Chinese, Vietnamese, Japanese, Italian, Indian and others, have entered the food service industry. However, the majority of customers prefer family-style menus featuring traditional Ukrainian food. In addition to McDonald's (with 62 restaurants in Ukraine), there are other fast-food restaurant chains like McSmak, "Pizza Chelentano" and "Kartoplyana khata" (Potato house), "Shvydko", etc.

HRI Prospects: The HRI sector will continue to grow. The number of customers is expected to increase as “eating out” habits become popular among the middle class and wealthy Ukrainians. Restaurant chains consisting of coffee bars, healthy food restaurants (separate eating, healthy food), and a fast-food fish chains, are not developed in Ukraine. These are good prospect areas for new restaurants, but the middle class is currently at the mercy of the economic crisis.

Food Processing Sector

The food-processing sector in Ukraine has developed rapidly in the past 5 years (up until late 2008) with an average growth rate of over 15%. The food industry’s share in manufacturing is almost 20%. In 2010, the industry’s total output of exceeded \$12 billion dollars (FAS/Kyiv estimates). Over 20,000 enterprises operate in the food processing sector of Ukraine. The fastest growth rate is found in fruit and vegetable processing, edible oils production, pastry and biscuits, baby food and alcoholic beverages production.

Imports of food ingredients are estimated at \$1.5 billion for 2010 (including products for further re-packing). Major imported products for the processing industries included poultry, fish, palm oil, cocoa products, juice concentrates, spices and seasonings, vegetables, additives, tobacco and others.

The development of the food processing industry is currently impeded by inadequate domestic supply of raw agricultural products and limited export possibilities. Only a few food processors comply with EU quality requirements and packaging standards (mainly dairy, meat, confectionery, and beverages). Large food processors purchase raw materials and food ingredients directly from foreign exporters. Large wholesalers and distributors also supply the sector.

Sector trends: The Ukrainian food processing industry will be driven mainly by domestic demand, through production of dairy products, especially hard cheese and whole milk products. Production of beef will be driven by demand in Russia and some Former Soviet Union countries.

SECTION IV. BEST HIGH VALUE PRODUCT PROSPECTS

Given the potential of the Ukrainian agricultural industry and relatively low incomes, U.S. high value added products will penetrate some niche markets, especially for those products that are not produced in Ukraine or are produced in limited quantities. In many cases, Ukrainian agriculture is not capable of producing products of consistently high quality (e.g. high quality beef steaks and pork medallions). There are markets for specialty products including low-fat, low-salt and sugar-free products, cake & bread mixes, corn meal, Graham Crackers and chocolate chips. U.S. suppliers could also supply new market segments that are just beginning to develop. This includes microwaveable and semi prepared food as well as TV-dinners. Potential importers must be aware that promotion of innovative or new to market products is expensive.

Other potential U.S. export items include snack foods, raisins, dried foods, nuts, spices, peanut butter, frozen and dried yogurt, soft drinks, frozen juices, fruit & vegetable pure and concentrates, fresh fruits and vegetables, wine, frozen foods, meat (especially chicken and turkey), pasta preparations, frozen and canned seafood, frozen and canned vegetables and fruits, soft cheese, soya sauces, salad dressings and breakfast cereals, baking improvers and bread mixes, and dry gluten. Quick-to-prepare main and side dishes as well as ethnic international foods are all gaining popularity.

Products with Best Sales Prospects in Ukraine

Product	2009 Market volume**	2009 Import volume**	Average growth of import over the last 3 years	Import taxes	Main factors hindering import development	Attractiveness of the market for the USA
Poultry	592 ths. tons	195 ths. Tons	14%	5-15% for poultry parts and whole birds;	Competition with Brazilian and EU producers; Quick growth of domestic production; Perception of U.S. product as cheap and of low quality.	U.S. product has well-established positions; Low prices attract a lot of buyers. Local producers will not be able to satisfy demand in near future.
Beef	433 ths. tons	18 ths. Tons	5%	15%	Consumer unawareness of U.S. high quality beef; Sizable domestic production, Complicated import procedures.	Insignificant specialized beef production; Constantly growing beef prices; Niche markets for meat delicacies (steak, etc.) and meat offal; Fast HRI development.
Pork	652 ths. tons	140 ths. tons	Over 80%	10-12%	Competition from Brazilian pork and Polish smuggled pork, complicated import procedures.	Shortage of pork in the country; declining production; high prices; Demand for stable deliveries of both cheap and high quality product.
Fish and Seafood	640 ths. tons	360 ths. Tons	10-20%	0 – 5% for all frozen fish; 10% for prepared fish, live fish, Mackerel, Trout, some Crustaceous, Anchovy, Salmon and Lobsters.	Regular deliveries of high quality product from Norway; Shortage of suitable equipment at retail trade outlets; Deficit of proper storage facilities with below –20C temperature.	Growing demand for higher quality seafood from consumers; Very modest assortment in markets; Significant demand from supermarkets and HRI sector.
Dried fruits and nuts (exclude. peanuts)	115 ths. tons	8.1 ths. tons	20-30%	From 0% to 20%	Sharp competition with Iran and Turkey. Desire of packers to save on raw stock, procuring low quality stock from Iran, Uzbekistan,	Intensive development of confectionery industry and start of retail sales of rare dried fruits (exceed world prices by 3 – 6

					and Afghanistan	times). High quality of U.S. product; Development of premium-class confectionery products
Canned fruits and vegetables	413 ths. tons	128 ths. tons	35%	5-15% Depending on Product Type	High competition from EU products; Smuggling; Cheap canned food niche occupied by Ukrainian trademarks. The majority of population is inclined to supply its own needs with home-made canned fruits and vegetables	High and growing demand for value added imports at the expense of, and gradual rejection of home-produced products; High-quality product niche is not completely filled.
Wine and spirits	250 million liters	27 million liters	Contracted by 15%	Significantly Varies by product	High import duties, tough competition with Ukrainian-made spirits and drinks produced in the CIS states	Relatively high level of alcohol consumption; Demand for exotic drinks (whiskey, gin, rum, bourbon).
Pet food	N/a	50 ths. tons	20-30%	5-10%	Large supply of Russian-made cheap pet food; Smuggling; Strong tradition of feeding pets with table scraps; Long registration and certification procedures.	Traditionally large number of home pets; Increased population incomes followed by growing demand for ready to use pet food. Comparatively low import duty

* All imported products are subject to 20% VAT tax;

** No 2010 data is available by the time when this report was drafted.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

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ATTACHMENTS

TABLE A. Ukraine's Agricultural Product Imports from the U.S. (2007/2009)

Calendar Year: 2007 - 2009								
Commodity*	Description	United States Dollars			% Share			% Change
		2007	2008	2009	2007	2008	2009	2009/2008
	All Agricultural Imports	187.52	405.98	289.97	100	100	100	-28.57
02	Meat	42.45	260.25	166.73	22.64	64.1	57.5	-35.93
10	Cereals	12.36	31.12	28.41	6.59	7.67	9.8	-8.71
12	Misc. Grain, Seed	13.53	21.80	23.02	7.22	5.37	7.94	5.6
24	Tobacco	80.95	29.70	16.41	43.17	7.32	5.66	-44.73
21	Miscellaneous Food	12.03	24.71	13.69	6.41	6.09	4.72	-44.62
04	Dairy, Eggs, Honey	0.01	2.77	12.45	0.01	0.68	4.29	348.7
23	Food Waste	4.70	6.30	10.43	2.5	1.55	3.6	65.49
08	Edible Fruit and Nuts	5.36	9.08	5.78	2.86	2.24	1.99	-36.34
3505	Dextrin Etc; Glues Based On Starches	3.42	5.83	5.35	1.82	1.44	1.84	-8.25
17	Sugars	1.47	1.57	1.60	0.78	0.39	0.55	1.8
13	Lac; Vegetable Saps	2.74	3.53	1.54	1.46	0.87	0.53	-56.57
22	Beverages	1.55	1.58	1.45	0.82	0.39	0.5	-8.03
20	Preserved Food	2.58	2.21	0.69	1.38	0.54	0.24	-68.63
07	Vegetables	0.67	0.91	0.52	0.36	0.22	0.18	-42.41
0511	Animal Products Nesoi	0.22	0.49	0.31	0.12	0.12	0.11	-37.12
3502	Albumins Incl. Whey Proteins	0.36	0.47	0.21	0.19	0.12	0.07	-56.35
330210	Mixtures Odoriferous Substance Use Food	0.23	0.26	0.16	0.12	0.06	0.06	-37.35
0510	Ambergris, Castoreum Etc; Glands Etc	0.45	0.46	0.14	0.24	0.11	0.05	-70.64
19	Baking Related	0.11	0.28	0.14	0.06	0.07	0.05	-51.43
5202	Cotton Waste (Including Yarn Waste Etc.)	0.00	0.00	0.14	0	0	0.05	n/a
4301	Raw Fur skins Nesoi (Incl Pcs For Fur Use)	0.08	0.42	0.13	0.04	0.1	0.05	-67.73
18	Cocoa	0.06	0.61	0.13	0.03	0.15	0.04	-79.13
	Other not mentioned	2.20	1.61	0.55	1.18	0.40	0.18	n/a

Source: State Statistic Committee of Ukraine

*HTS 1-24 groups

TABLE C. TOP 15 SUPPLIERS OF CONSUMER FOODS AND EDIBLE FISHERY PRODUCTS to Ukraine (\$ Million)

CONSUMER-ORIENTED AG TOTAL*				FISH & SEAFOOD PRODUCTS			
Country	2006	2007	2008	Country	2006	2007	2008
Russia	57.9	83.6	104.7	Russia	57.9	83.6	104.7
Germany	31.4	48.2	65.4	Germany	31.4	48.2	65.4
Hungary	12.6	11.6	15.7	Hungary	12.6	11.6	15.7
Netherlands	12.6	15.6	12.6	Netherlands	12.6	15.6	12.6
United Kingdom	4.1	3.6	10.1	United Kingdom	4.1	3.6	10.1
Switzerland	3.9	4.5	7.4	Switzerland	3.9	4.5	7.4
Poland	3.5	2.3	5.4	Poland	3.5	2.3	5.4
Austria	1.6	2.1	4.1	Austria	1.6	2.1	4.1
Belarus	0.9	2.8	3.3	Belarus	0.9	2.8	3.3
United States	0.8	3.1	3.2	United States	0.8	3.1	3.2
Italy	0.5	2.3	1.9	Italy	0.5	2.3	1.9
Sierra Leone	0.0	0.0	1.9	Sierra Leone	0.0	0.0	1.9
China	1.2	1.2	1.8	China	1.2	1.2	1.8
India	1.5	1.2	1.5	India	1.5	1.2	1.5
Japan	0.3	0.4	1.3	Japan	0.3	0.4	1.3
--The World--	148.1	201.7	250.7	--The World--	445.2	532.6	721.7

Source: State Statistic Committee of Ukraine (trade data from UN Statistics Division for Ukraine is not available);

* Based on Ukrainian Statistics and BICO definition of Consumer-Oriented Products by 10-digit HS Code.