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Food Processing Ingredients Sector

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Report Highlights:

The Ukrainian market is rapidly expanding for food ingredients, but US suppliers will face strong competition from EU-27 companies. Incomes continue to rise steadily in Ukraine and are fueling growth in the domestic food industry. The processing industry in Ukraine is attempting to satisfy domestic demand for innovative and high value added products. The majority of Ukrainian consumers prefer locally produced products, however this preference does not extend to inputs.

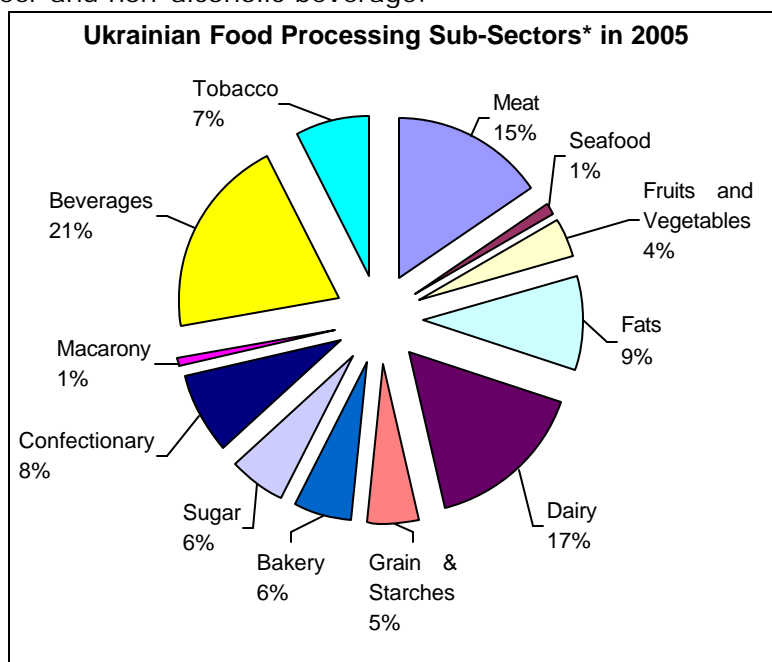
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SECTION I. MARKET SUMMARY

Ukraine ranks among the largest countries in Europe with a population over 46 million. With rich black soil, a favorable climate, Black Sea ports, and close proximity to major consumer markets in the Europe Union, the Former Soviet Union (FSU), North Africa and the Middle East, Ukraine has the potential to become the agricultural powerhouse of Eastern Europe. Given the country's significant potential, Ukraine is in a strong position for significant growth in the agricultural sector. The food-processing sector in Ukraine has developed rapidly over the past 5 years. In 2005, the food industry accounted for more than 18% of GDP and captured a 16.3% market share in manufacturing. The food processing industry is continuing to grow rapidly: by 6.0% in 2003, 12.4% in 2004 and whopping 13.7 in 2005. The fastest growth rate occurred in fish processing, juice production, alcoholic beverages production, beer and non-alcoholic beverage.



Source: State Statistics Committee of Ukraine
*By volume of the product

**Table 1. Dynamic Growth of Food Industry Production
(% increase over previous year)**

	2001	2002	2003	2004	2005
Meat	-11%	30%	26%	15%	12%
Seafood	46%	28%	5%	35%	41%
Fruits and Vegetables	27%	23%	39%	20%	30%
Fats	-3%	10%	33%	9%	8%
Dairy	35%	-2%	14%	21%	16%
Grain & Starches	6%	-3%	5%	16%	-5%
Bakery	3%	-2%	7%	6%	3%
Confectionary	16%	1%	12%	13%	11%
Macaroni	3%	-4%	4%	-5%	18%
Beverages	23%	16%	18%	16%	24%
Tobacco	28%	16%	18%	15%	18%

Source: State Statistics Committee of Ukraine

Table 2. Ukraine: Production of Products with Highest Growth Rates (% increase over previous year).

	2004	2005
Cheese	29%	22%
Beer	14%	23%
Non-alcoholic Drinks	12%	21%
Milk	11%	20%
Refined Sunflower Oil	32%	29%
Margarine	13%	7%
Chocolate	19%	16%
Mayonnaise	18%	20%
Cognac	23%	20%
Vodka	51%	12%
Frozen Sea Food	228%	19%

Source: State Statistics Committee of Ukraine

More than 95% of all food products consumed in Ukraine are produced domestically. The current level of domestic production and consumption for most food and agricultural products in Ukraine are still half the levels recorded during the last few years of the Soviet era. The seafood, fruit and vegetable, and beverage sectors have expanded very rapidly over the past 5 years. Conversely, meat, fats, and dairy production has decreased. Production in the remaining sectors are relatively stable.

Table 3. Ukraine: Per Capita Annual Consumption of Major Food Products (Kilograms)

Product	1990	1999	2000	2002	2003	2004	2005
Meat and meat products	68	33	33	33	35	39	39
Dairy products	373.2	209.9	197.7	223	218	226	226
Eggs (units)	272	163	164	209	211	220	238
Bread products	141	121.8	124.1	131	125	126	123
Potatoes	131	121.9	134.5	133	140	141	136
Vegetables	102.5	95.9	101	108	115	115	120
Fruit	47.4	22.1	29.1	29	33	34	37
Fish and fish products	17.5	7.2	8.3	11.9	11.3	12	14
Sugar	50	32.6	36.5	36	36	38	38
Vegetable Oil	11.6	8.9	9.3	10.7	11	13	14

Source: State Statistics Committee of Ukraine

According to the World Bank's country classification, Ukraine belongs to the group of low-income countries. Consumption of food products accounts for a significant share of an average Ukrainian family's disposable income. In 2006, the share of food product expenditures in the Consumer's Price Index (CPI) consumption basket reached almost 70%. In 2005, Ukrainians consumed the following products:

*******Table 4. Sales of Processed Food Products in 2005**

	Sales of Agricultural Products	
	In retail Prices UAH, million	Percent of Total
Total Sales of Processed Food Products	76,329	100
Food Processing Industry Including:	71,204	93.3

Meat	10,665	14.0
Fish	946	1.2
Vegetables and Fruits	2,749	3.6
Fats	6,475	8.5
Dairy	11,352	14.9
Grains and Starches	3,708	4.9
Bread and bakery	4,146	5.4
Sugar	3,943	5.2
Confectionary and Chocolate	5,577	7.3
Pasta	650	0.8
Beverage	14,145	18.5
Tobacco	5,124	6.7

Source: State Statistics Committee of Ukraine

At the end of 2005, the Ukrainian food processing sector was comprised of 8,607 industrial enterprises with gross output at over 76 billion UAH (\$15 billion). Concomitantly, Ukraine's food processing sector attracted the largest share of foreign direct investment (FDI). By January 2006, the sector accumulated over \$1.169 billion in foreign direct investment (accounted for 23.1% of all FDI in the economy). Compared to last year, the overall market share of the food processing industry somewhat decreased (in 2004 it reached 29.2% of all FDI in the economy or \$1.112 billion). The decrease was a result of the increased attractiveness of raw material production (like metallurgy) in 2006.

The food-processing network was developed during the Soviet era and was designed for large scale production and subsidized inputs. The number of enterprises in sugar processing, dairy and meat-packing greatly exceeds market requirements, given the significant reduction in raw supplies and structural changes in agricultural production. The insufficient number of oil-crushing facilities were expanded by large multinational companies. These companies renovated many existing facilities or built new ones in order to meet demand. Crush capacity increased from 3.8 million tons in 2003 to 5.5 million tons in 2006. Grain handling and processing facilities were also renovated, and a number of new export-oriented port terminals built. One of the new grain terminals (with a capacity of 100,000 tons) was built in Sebastopol in 2005. Other port terminals were completely renovated in recent years including Yuzhnyj terminal (TIS) and the grain terminal in Odessa.

The average Ukrainian dairy processing facility is working at only 52-57% capacity; pasta and bread producers at 51-60%; flour mills at 30-38%; fruit and vegetable processing or canning enterprises at 34-39% during winter and spring and 60% capacity during summer and autumn months. (A survey of the processing industry was conducted by the World Bank / International Finance Corporation (WB/IFC in 2003). Thus, many processors have substantial underused capacity and are capable of sharp production increases. Growing domestic demand for high quality goods will eventually lead to increased imports of foreign ingredients.

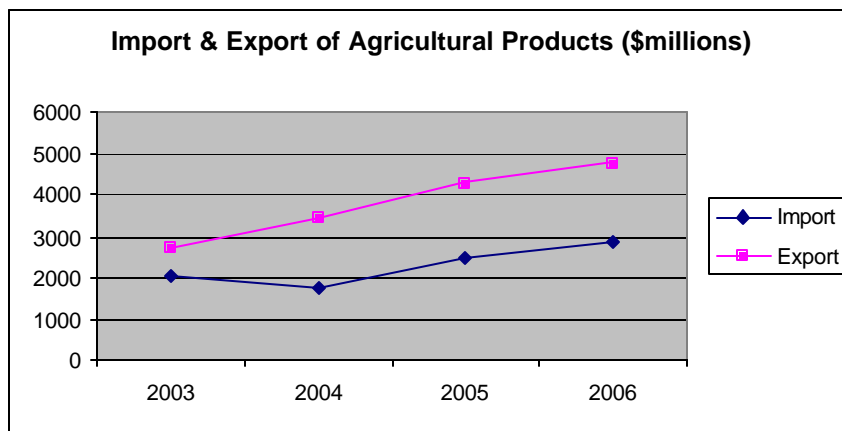
A few large producers (both foreign and domestic) dominate many sub-sectors. The beer industry is dominated by 4 breweries that captured over 80% of the market in 2006, the confectionary industry – by 10 companies (controlling over 70% of the market), dairy by 20-26 producers (capturing greater than 70% of the market). Many of these large companies have purchased their less efficient or smaller counterparts in different regions to expand production in new markets.

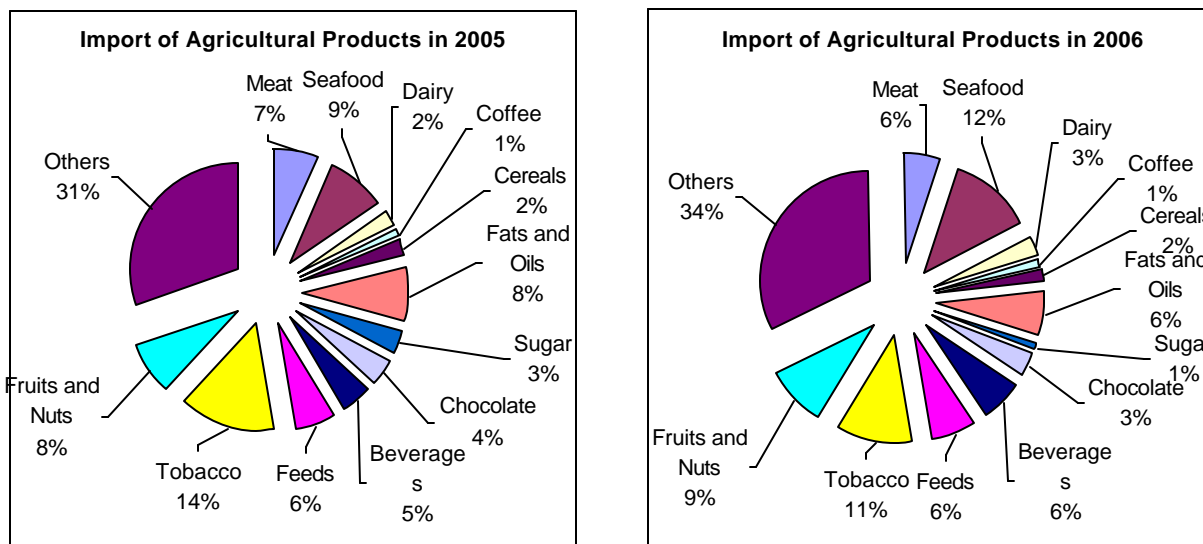
In 2006, total imports of agricultural products to Ukraine reached \$2.8 billion compared to \$2.5 billion in 2005 and \$1.7 billion dollars in 2004. In order to provide a more

comprehensive sector overview, please refer to the import diagrams for both 2005 and 2006 provided on the following page.

The export of ready-to-consume products is also growing. Competitively priced Ukrainian products sparked interest of price cautious buyers in Russia and other FSU countries, where Ukraine is struggling to recapture its traditional markets. The export of processed food products reached \$1.6 billion dollars and continues to increase. This dramatically increases the demand for ingredients and opens new opportunities to US suppliers.

The import of food ingredients to Ukraine is complicated by high custom tariffs and other barriers such as sanitary and phytosanitary measures, compulsory certification of imports, outdated Ukrainian standards, corruption, non-transparent and quickly changing legislation. The lack of clarity in many laws means that it is difficult to understand actual non-tariff requirements for imported products. In many cases it is not clear where the control is applied.





Source: State Statistics Committee of Ukraine.

The macroeconomic situation in Ukraine is fairly stable. Since January 2000, the Ukrainian government has embraced a strong economic reform program and focused its attention on areas with the most significant economic and social impact. Relatively strong GDP growth began in 2002 and continues to the present. Please refer to the table below.

The increase was the result of strong industrial output growth (especially in manufacturing), a surge in retail trade, and good agricultural performance. The Ukrainian currency "hryvnia (UAH)" is unofficially pegged to the U.S. dollar, so the exchange rate is stable and businesses are not subject to exchange rate fluctuations. Inflation continues to decrease: in 2002 inflation was 12.3%; in 2005 inflation was 10.3% and in 2006 inflation decreased to 9.1%. The electoral crisis in late 2004 had little impact on the stability of the Ukrainian currency, although some risks remain due to a significant budget deficit and some general macroeconomic problems.

Table 5. Real GDP Growth (% change)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Real GDP	- 10	-3	-1.9	-1.9	-0.2	-0.2	5.9	9	12	2.7	7.0

Economic growth has expanded from traditional industrial export goods to also include agriculture, construction, and food processing. Privatized companies have performed prominently in this economic expansion. Macroeconomic stability should result in increased imports in 2007 and beyond.

Imports of Agricultural Products

Nearly 97% of all food products consumed in Ukraine are produced domestically. These products include meat, poultry and dairy products; macaroni, confectionery and bakery products, alcohol and non-alcoholic drinks, canned meat and vegetables.

Table 6. Ukraine: 10 Major Imports (CIF Value: \$1000).

#	HS Code	Product Description	2002	2003	2004	2005	2006*
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1	100190	Wheat except durum wheat	423	462,983	110,043	1,476	656
2	170111	Raw sugar, cane	71,466	290,214	73,016	46,944	0
3	240120	Tobacco, unprocessed, stemmed or stripped	107,377	123,227	157,850	180,423	161,191
4	210690	Food preparations nes	48,406	66,042	91,909	148,613	144,004
5	220820	Spirits obtained by distilling grape wine, grape marc	8,661	63,735	10,462	22,196	35,590
6	151190	Palm oil or fractions simply refined	42,365	39,585	71,816	104,688	80,064
7	210111	Coffee extracts, essences, concentrates	18,584	38,101	60,282	80,150	78,475
8	240220	Cigarettes containing tobacco	23,639	37,126	29,613	38,411	32,930
9	20714	Fowls, cuts & offal, frozen	24,125	35,922	110,120	61,973	79,647
10	240310	Cigarette or pipe tobacco and tobacco substitute mixed	27,607	32,065	20,371	53,390	16,620
	HS 1-24	Total	1,113,761	2,173,704	1,908,314	2,684,081	2,783,971

*2006 – January -November

Source: State Customs Committee of Ukraine.

Imported food products are mainly those items not produced domestically. Among these products are:

- Coffee, tea and snack foods
- Canned fruit
- Canned vegetables
- Gourmet/delicatessen meat and fish products
- Chocolate products
- Cheese and yogurt
- Baby food
- Alcoholic beverages
- Juices
- Olive oil

Table 7. Ukraine: 10 Major Commodities Exported to Ukraine from the United States (CIF Value: \$1,000)

#	HS Code	Product Description	2002	2003	2004	2005	2006*
1	240120	Tobacco, unprocessed, stemmed or stripped	23,920	13,837	22,680	16,850	29,545
2	170111	Raw sugar, cane	864	3,482	2,194	0	0
3	210690	Food preparations nes	1,304	2,304	4,064	8,852	7,913
4	100630	Rice, semi-milled or wholly milled	209	1,988	0,388	43	115
5	100190	Wheat except durum wheat	0	1,974	2,468	48	0
6	220710	Non denatured ethyl alcohol >80% by volume	0	1,902	1,520	0	0
7	20714	Poultry, cuts & offal, frozen	7,022	1,718	58,332	35,492	37,858

8	240391	Homogenized or reconstituted tobacco	1,135	1,579	1,895	6,756	7,195
9	170230	Glucose, glucose syrup <20% fructose	929	1,245	0,156	17	19
10	230910	Dog or cat food (retail)	739	1,136	1,646	2,120	2,405
	HS 1-24	Total U.S. Exports	59,443	46,804	128,570	107,410	128,548
	HS 1-24	U.S. Share in the market, Total	5.30%	2.20%	6.7%	4.0%	4.6%

*2006 – January -November

Source: State Customs Committee of Ukraine.

Trade in food products and ingredients between the U.S. and Ukraine is far from reaching its potential. This leads to highly volatile data and unclear prospects for specific U.S. products and commodity groups in Ukraine. The poultry import ban introduced in January 2002 significantly changed the structure of trade, since poultry was the major U.S. food export item for a number of years. Thus far, U.S. producers have mostly supplied moderately priced goods for further processing. Imports of food ingredients, additives, seasonings, spices, fruit and vegetable products have increased significantly along with the sharp growth in Ukraine's domestic food processing industry.

Demand for inputs is strong in the meat and dairy sectors, the beverage industry, and for such products as sauces, mayonnaise, margarine, juices and other non-alcoholic beverages. Growth is particularly strong for:

- Vegetable and fruit purees; dry concentrates
- Dried fruit including apricots, prunes and raisins
- Spices (pepper, vanillin, cardamom, cinnamon)
- Nuts (excluding hazelnuts and walnuts)
- Stabilizers, emulsifiers, flavorings, proteins, pigments, and other additives.

Tariffs and Import Taxes

Importers face a value-added tax (VAT), import tax, fees, and, if applicable, an excise tax (up to 300%). The VAT is levied at 20%, based on the customs value on the invoice. Generally, the importer pays the VAT at the time of customs clearance. A promissory note can also be applied. Agricultural producers are exempted from the VAT. They are also eligible for VAT refunds that are paid by milk and meat processors.

In January 2000, border checkpoints began collecting a new uniform customs duty, combining seven import fees: customs clearance, sanitary, veterinary and phytosanitary inspection, radiation, ecological control and other fees.

Ukraine employs a two-tiered system of general (full-rate) tariffs and preferential (partial-rate) tariffs. Imports from Western countries, including the United States, are usually assessed preferential tariffs. The current tariff schedule contains both *ad valorem* and minimal fixed (per 1 kilogram) import duties. Many of the fixed rates are unjustifiably high and often fail to make a distinction between cheap and expensive commodities. Import duties largely depend upon whether a similar item to that being imported is produced in Ukraine. If so, the rate tends to be higher. U.S. exports to Ukraine usually receive preferential customs rates if the following three criteria are met: (1) the company is registered in the United States; (2) the goods have a certificate to prove U.S. origin; and (3) the goods are imported directly from the United States.

Imports subject to an excise tax include alcohol and tobacco products. Excise duty rates are expressed as a percentage of the declared customs value, plus customs duties and customs fees paid for imported products.

Food and Agricultural Product Regulations

A veterinary inspection is required of all animal and food products as well as any other products, which could contain pathogenic organisms including:

- Canned meat, poultry and fish, cheese, butter sausages, baby food;
- Feed of animal and plant origin;
- Feed additives including animal and vegetable proteins, amino acids, vitamins, ferments, feed yeast and fats;
- Meat and poultry and their products, milk and milk products, egg products, fish products, honey.

Feed additives and feeds (including pet food) are also subject to compulsory certification by the scientific institution appointed by the GOU. Zero or minimum (€ 0.05/kg) tax rates are fixed for most imported food products, which are not produced in Ukraine or produced in quantities below domestic demand. The tax rate on products produced in Ukraine varies from 10% to 300% or from €0.2 to €1.0 per kilogram.

Other Import Regulations

Non-tariff import regulations applied in Ukraine include:

- Import licenses
- Import quotas
- Registration of contracts
- Import restrictions/bans
- Certification
- Narcotic drugs control
- Veterinary, phytosanitary and ecological control

At the present time, import quotas are generally only applied for cane sugar imports.

Ukraine is not a Codex Alimentarius Commission member and maintains its own list of food additives allowed for human consumption. The list was adopted by the GOU decree in 1999 and last updated in 2001. Food additives not included in the list cannot be imported to Ukraine separately or as an ingredient of another product.

A ban on U.S. poultry meat was imposed on January 1, 2002 and officially lifted in November 2003. However, talk of additional retaliatory actions against U.S. poultry, initiated by Ukrainian producers fearing increased competition and lower prices, continues.

Table 8. Advantages and Challenges facing U.S. products in Ukraine

Advantages	Challenges
Ukraine's food sector is growing, revealing big opportunities for U.S. exports	Exports to a developing market is risky
Rising incomes and changes in consumption patterns have led to increased demand for top quality high-value food products	Per capita average monthly income in Ukraine is still low and did not exceed \$205.82 (1,030 UAH) for 2006
Insufficient quantity of domestically produced	U.S. products face strong competition from

innovative high quality components for food industry	EU countries
Bigger food producers are being formed through acquisitions and mergers	Majority of producers are price cautious and do not consider expensive components for mass production
Growth in direct foreign investment has led to increased utilization of imported food ingredients	High import tariffs, food safety regulations and sanitary and phytosanitary restrictions hamper the import of fresh produce and certain food ingredients
Ukraine's favorable geographic location promotes increased trade in processed food products to Eastern and Central Europe and the FSU	Underdeveloped domestic retail network with majority of foodstuffs sold through small stores and open air outlets
The growing popularity of U.S. fast food chains favors their existing procurement systems which source many food ingredients from the United States	It is difficult for U.S. products to compete on price with favored imports from free trade partners in the FSU
Ukraine looks to join the WTO by 2007. While accession will result in reduced tariff rates for food products, there will also likely be increased competition among potential suppliers of imported food products	Widespread corruption complicates exports to Ukraine significantly. Illegal imports of cheap food ingredients can cause a serious competitive threat to legal ones

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

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

- The need for the product in the market, given consumers' income trend and particular food sector development perspectives;
- Availability of the same or similar products produced domestically (often Ukrainian producers are capable of creating barriers to trade by lobbying their interests in the GOU, Parliament or even veterinary or health inspection services).
- Availability of the same or similar products from EU or FSU as well as comparative advantage of U.S. products (e.g. quality, price, transportation expenses, packaging, labeling, etc.)
- Tariff and non-tariff regulations. Note, that in many cases big Ukrainian food producers can lobby tariff reductions for much needed ingredients and can settle veterinary or SPS problems should they arise.

If the Ukrainian market looks promising, then the establishment of a representative office to deal with buyers directly is recommended. Personal relationships are very important in Ukrainian business practices and few problems can be effectively resolved over the phone. It is a very common practice in Ukraine to do input purchases directly from the producer. Even if the exporter's policy is to work through the European or Russian based distributor, most Ukrainian partners will attempt to contact the producer directly.

In the past many U.S. companies dealt with Ukrainian partners through a representative office in Moscow. This is no longer very common. Note, the Ukrainian food components market is small at the moment and relatively few products could justify a representative office in Kyiv. In this case the second market entry strategy is recommended, which is currently used by the vast majority of U.S. exporters.

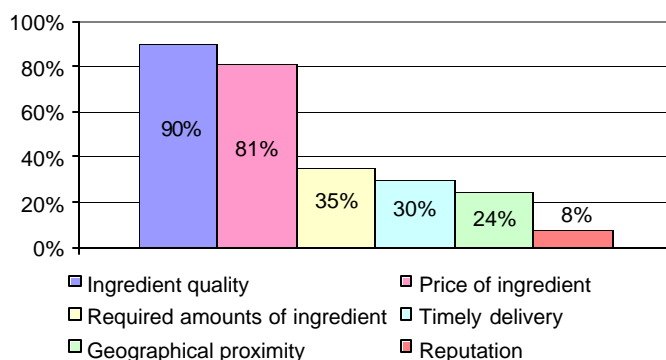
Work through a Ukraine-based importer or through the procurement service of the buyer (the latter is the most convenient if there are only 2 or 3 potential buyers). Due to frequent changes in Ukrainian legislation, non-transparent custom clearance rules, SPS and veterinary procedures, it is recommended to leave it to the Ukrainian partner’s discretion. Ukrainian importers also take care of the entire logistic chain, inland transportation and distribution. There have been cases, when backed up by the domestic processing industry, of importers having enough clout to lobby for tariff reductions (import of hops) or quota increases (cane raw sugar quota for 2003).

U.S. companies should approach potential Ukrainian partners with extreme caution. While the extent of 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 a financial service firm that is internationally respected.

Selected products may enter the market under a different route, via a Ukraine-based U.S. intermediary who fits the distribution scheme better and works more effectively than a Ukrainian importer. This can be the case if the importer’s technical skills and expertise are insufficient for product promotion.

WB/IFC survey demonstrates that the quality of inputs supplied for processing is the decisive factor influencing decisions by the Ukrainian processor:

Significant Factors Influencing Ingredient Choice by Processing Businesses



Source: WB/IFC Processing Sector Survey

WB experts note that the availability of required raw material is particularly important in the dairy sector, while timely delivery is more important for processors of fruit and vegetables. Geographical proximity is a factor for producers of mixed fodders. For closing ingredients

supply contacts, the role of such factors such as supplier's market reputation, personal connections and colleague references are not regarded as important.

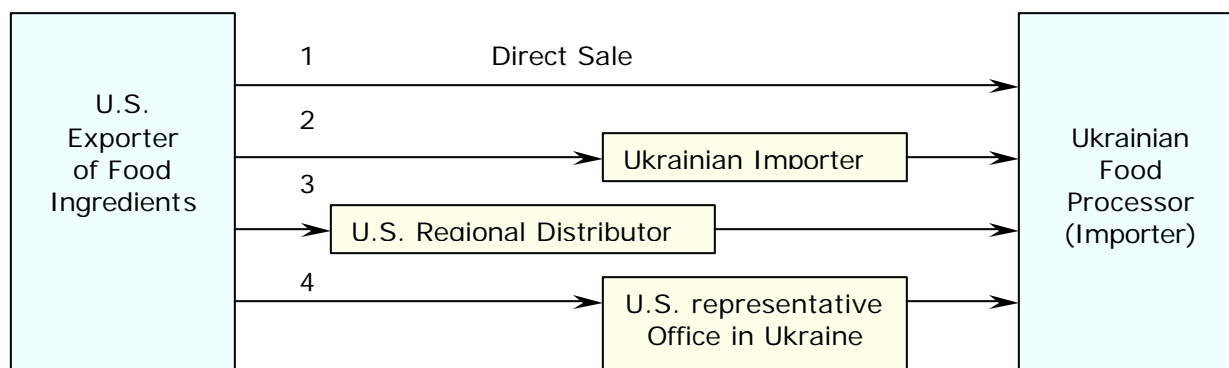
B. Market Structure

The Food Ingredients Distribution Chart summarizes all of the above. The majority of sales go through the 2nd channel, with use of the Ukrainian distributor.

The U.S. Embassy in Kyiv strongly advises that all U.S. companies consider legal counsel before and while doing business in Ukraine. Ukrainian laws and regulations are vague and open to considerable leeway in interpretation, providing ample corruption opportunities for officials at every bureaucratic level. U.S. businesspersons are advised that partnership with a Ukrainian company is a challenge that is beyond the control of the U.S. partner and his legal advisors.

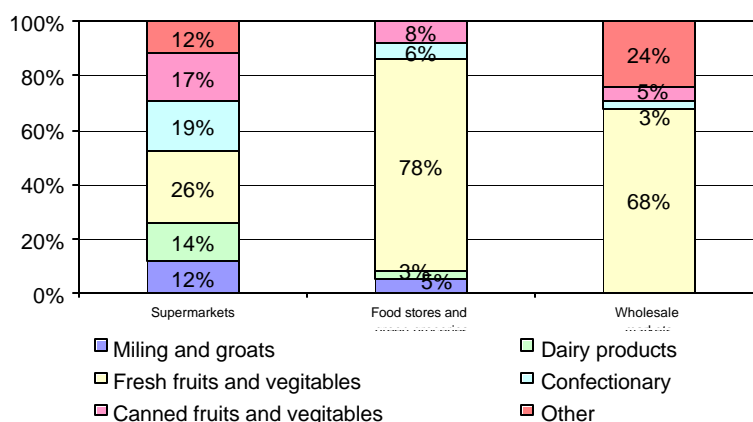
Regional projection is very important in Ukraine. The majority of exporters are concentrated in the Kyiv market, where salaries (purchasing power) are the highest and the business climate is the most favorable, although Kyiv is not the only trade hub in Ukraine. Look for distributors with nationwide capabilities, including those in the cities of Lviv, Odesa, Zaporizhzhya, Donetsk and Kharkiv. These cities are in important industrial regions of Ukraine and are densely populated.

Food Ingredients Distribution



The proportion of imports in wholesale and retail chains varies both by specific commodity group and type of trade enterprise. Ukrainian supermarkets have the widest product mix and the biggest proportion of imports in all categories of goods. According to the industry survey conducted by the World Bank, supermarkets and greengroceries tend to have the largest portions of imported fresh fruits and vegetables on their shelves: 19% and 23%, respectively. 13% of confectionery and 12% of canned products sold in supermarkets also come from abroad. Except for fruits and vegetables, food stores tend to stock products of mostly domestic origin. The share of imports in all other commodity groups is under 4%.

Proportion of Imported Goods (% of overall Import)



Source: World Bank / IFC Retail Sector Survey

C. Company Profiles

Almost all Ukrainian food processing companies were privatized during the first Ukrainian privatization campaign in 1994/98. The state still maintains enough shares to influence votes, but rarely uses this power to influence managerial decisions. Since then, property has been constantly redistributed from less efficient to more efficient owners. Minor shareholders in many cases have sold their shares to big financial groups capable of undertaking ambitious investment programs in order to replace outdated Soviet equipment and technology. Between 1998-2004, many multinational holdings entered the market, purchasing the most promising enterprises in dairy, beverage, snack, and confectionary industries. Some local entrepreneurs were able to develop big and profitable businesses, which shape the Ukrainian food processing sector today. Small processing workshops that mushroomed in the early 1990's can no longer compete with the large players. Their market share is shrinking quickly.

Table 9. Major Ukrainian Food Producers

Product	Producer	Estimated Sales* \$1,000, (year)	Share in total output of the sector. %	End Use channels	Procurement Channels
Fish	Iceberg, Dnipropetrovsk	-	31.3	Retail and HRI	Direct
Red Meat and Poultry	Gavriliivsky Pptahivnychiy Complex, Kyiv region	\$6,5000 (2003)	6.5	Retail and HRI	Direct, Distributors
	Mironovsky Hleboproduct (3 locations)	\$16,0000 (2003)	19	Retail and HRI	Direct, Distributors
	"YUNKERS", Donetsk Region	\$312 (2001)	22.6	Retail and HRI	Direct, Distributors
Dairy products	Shostkinskij M?skmolkombinat Sumy Region	\$7,408 (2001)	5.2	Retail and HRI	Direct, Importers
	Romenskij Molochnij Komb?nat Sumy Region	\$10,303 (2001)	2.7	Retail and HRI	Direct, Importers
	"Kmk Promserv?s" Kharkiv Region	\$1,205 (2001)	8.2	Retail	Direct, Importers, Distributors

	"Galakton", Kyiv	\$34,353 (2002)	10	Retail	Direct, Distributors
	Laktalis- Ukraina, Mikolaev Region	\$8,192 (2001)	6.2	Retail	Direct, Distributors
Beer	"Obolon", Kyiv	N/A (2005)	26.2	Retail and HRI	Direct
	Sun Interbrew (3 Locations)	\$352,538 (2003)	33.8	Retail and HRI	Direct
	Bbh Ukraine (2 Locations)	\$174,409 (2002)	20.1	Retail and HRI	Direct
Hard Liquor, Vodka and Spirit	Soyuz V?ktan Ltd Crimea	\$17,012 (2001)	29.5	Retail	Direct, Importers
	Lokhvitskij Spirtokomb?nat Poltava Region	\$5,199 (2001)	6.7	Retail and HRI	Direct, Distributors
Sugar	Dubenskij Tsukrovij Zavod Rivne Region	\$294 (2001)	4.5	Retail and HRI	Direct, Importers
Starch dry	Dniprovsky Krahmalo-Patokovij Kombinat, Dnipropetrovsk Region	\$5693 (2001)	85.1	Retail and HRI	Direct, Importers, Distributors
Food concentrates (dry and condiments)	Tekhnokom Ltd, Kharkiv	\$12,745 (2001)	-	Retail and HRI	Direct, Distributors
Flour	Kiivmlyn, Kyiv	\$22,804 (2001)	6.8	HRI	Direct, Distributors
Cereals	Skvirskij Kombinat Khiboproductiv Kyiv Region	\$2,507.5 (2001)	16.9	Retail and HRI	Direct, Distributors
Feed	Rozovsky Komb?kormovij Zavod Donetsk Region	\$5,561 (2001)	8.6	HRI	Direct, Distributors
Frozen Prepared Food	Herkules CJSC	\$1,470 (2003)	5.0	Retail and HRI	Direct, Distributors
	Aqua Trade	\$1,470 (2003)	5.0	Retail and HRI	Direct, Distributors
	Danika	\$882 (2003)	3.0	Retail and HRI	Direct, Distributors
Confectionery	Kyiv-Konti, Donetsk (3 Locations)	\$27,763 (2001)	7.5	Retail	Direct, Distributors
Pasta (macaroni)	Khmelnitskaia Makaronna Fabrika Khmelnitsk	\$5,285 (2001)	23.0	Retail	Direct, Importers
Non-alcohol beverages	Mirgorodskij Zavod M?neralnikh Vod, Poltava Region	\$4,673 (2001)	14.6	Retail	Direct, Distributors
	Coca-Cola Company Kyiv Region	\$4,134 (2001)	17.6	Retail and HRI	Direct
	Pivzavod "Obolon", Kyiv	\$104,661 (2001)	8.5	Retail and HRI	Direct, Distributors
Vegetable oil	Carg?ll Ltd Donetsk	\$7,228 (2001)	14.0	Retail and HRI	Direct, Distributors
	Olijno-Ekstrakcijnij Zavod, Dnipropetrovsk	\$83,586 (2001)	12.1	Retail and HRI	Direct, Importers Distributors

Source: State Statistics Committee of Ukraine, FAS Kyiv calculations

* All revenues, excluding VAT & excises

D. Sector Trends

A major policy goal of the Ukrainian government (GOU) is to attract foreign investment. As of January 1, 2006, the total value of FDI in Ukraine was \$8.4 billion dollars. For 2006, the food industry was a major recipient of FDI at nearly \$1.17 billion or 14% of total

investment. Major sources of foreign investment in Ukraine's food industry include the United States (13.8%), Cyprus (12.4), the Netherlands (6.6%), United Kingdom (6.5%) and Germany (7.6%). Other sources of investment include Russia, Switzerland, France, Spain, Denmark, Belgium, Austria, Finland, Norway and Sweden.

The food industry in Ukraine is becoming increasingly concentrated as less-efficient and small companies go out of business. This is resulting in vertically integrated operations where all stages of production "from the field, to the table" are concentrated within one large company. Vertically integrated companies are seen increasingly in the fruit and vegetable, meat and poultry, and milling and dairy industries.

Table 10. Ukraine: Major Food Industry Foreign Investors as of January 1, 2007.

Company	Product(s)	Country of Origin
Nestle	Confectionery; ice cream; Souces	Switzerland
Trilini International	Confectionery	USA
Kraft Foods	Confectionery; snack foods	USA
McDonald's	Fast food	USA
Cargill	Vegetable oil and animal feed	USA
Bongrain Europe	Cheese	France
Benye/Lactalis	Dairy	France
Wimm Bill Dann	Dairy	Russia
Dannon	Dairy	France
FoodMaster	Dairy	USA
Baltic Beverages	Beer; soft drinks	Denmark, Finland
SUN InBev	Beer	Int.
Invesko Sim	Beer	Turkey
Pepsico	Soft drinks; natural water	USA
Coca-Cola	Soft drinks; natural water	USA
Bircher Benner	Dry Breakfast	Switzerland
Euro Foods	Dry goods; condiments	Spain
Agrovita	Meat and poultry processing	Sweden
Esca Food	Meat Processing	USA
UGF	Meat	USA
Suth Foods	Fruit and vegetable processing	Sweden
Shaller	Spices; meat, equipment	Austria
Billa AG	Food retail	Austria
Metro AG	Food retail discounter	Germany

Source: State Statistics Committee of Ukraine

Foreign investors prefer to invest in food processing and retail sectors rather than agricultural crop production. They also tend to bring their own processing equipment as well as packaging materials.

Major U.S. food producers have made some significant investments in Ukraine. Cargill Inc. invested over \$50 million in an oil crushing plant in the Donetsk region. This enterprise is capable of processing 1,000 MT of sunseed a day and is one of the largest crushing facilities in Ukraine. Investments made by Coca-Cola Inc. in the non-alcohol beverage sector exceeded \$270 million. By the end of 2004, McDonald's Corp. had invested over \$90 million and had 55 fast food outlets. In 2007, McDonald's has a total of 57 restaurants and plans to build 4 more at a cost of 7 million per restaurant. McDonald's has a presence in 16 Ukrainian cities. More investments have been announced for 2005 by other major U.S. fast food

chains. This will continue to drive demand for imports of food ingredients. It is likely that new businesses will attempt to use the same ingredients as in the U.S. to maintain quality and uniformity of their products.

The following trends will dominate the Ukrainian food processing sector in the next two to four years:

- Increase of foreign direct investments in the food processing industry;
- Increase in use of additives (preservatives and stabilizers);
- Increase in consumption of processed fruits, vegetables, milk, fish, and meat products;
- Increase in demand for convenience foods (highly processed, easy to cook, microwavable, and ready to eat products);
- Reduction in the number of small food processors, domination of larger companies in most food markets;
- HRI sector, which plays a minor role in the market, will begin to develop;
- Growth of supermarket chains will continue with a new class of big discounters developing in large cities;
- The level of processed food consumption is likely to grow in the medium term with low priced products dominating the market;

The trend to consume more “healthy foods” (low in fat and cholesterol, reduced sugar or sugar free) is not yet evident in Ukraine. The diet of many low-income consumers is not nutritionally balanced and concern for healthier foods is 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 compulsory labeling will make them easily identifiable in supermarkets. So far there have been no biotech labeled products observed on the market and Ukraine lacks the technical abilities to enforce this requirement. Ukrainian legislation on biotechnology is in development and it is difficult to forecast what measures will be adopted.

SECTION III. COMPETITION

Products from the European Union are the main competitors for U.S. food ingredients. CIS countries cannot compete with European and US producers in high value added and processed products, but are quite successful in supplying cheap ingredients. Currently, over 30% of food products (both processed and raw materials) are imported from the EU, and almost 19% from CIS. Germany, Netherlands, France and Italy are the main suppliers of food ingredients to Ukraine. As consumer preferences shift to more expensive products, more opportunities will arise for U.S. and European companies and less for CIS.

Table 11. Competitive Situation in the Ukrainian Food Ingredients Market

Product Category	Major Supply Sources in 2005**	Strengths of Major Supplying Countries	Advantages and Disadvantages of Local Suppliers
Poultry meat* Net imports: 141.7 TMT US\$ 27.9 mil (CIF) in 2005	1. U.S. – 52% 2. Brazil – 6% 3. UK – 6% 4. Belgium – 5% 5. Germany – 8%	European suppliers are price competitive and do not use chemicals, that cause concern from the Ukrainian veterinarian service. Brazilian poultry supplies began in 2003, but are not price competitive since the	Quickly developing domestic suppliers are increasing their market share. The use of technology has advanced greatly over the past 5 years.

		lifting of the poultry ban in 2003.	
Nuts Edible Net imports: 7.8 TMT US\$ 3.5 mil (CIF)	1. US – 14% 2. Azerbaijan –17% 3. Turkey – 59% 4. Iran - 6%	U.S. competitors supply hazelnuts, pistachio, and walnuts, leaving almonds to U.S. suppliers. Most competitors are located in close proximity to Ukraine (mostly the Black sea region) and offer good deals for price cautious Ukrainian buyers.	There is no nut production in Ukraine. Insignificant quantities of walnuts come to the market from natural forests.
Pet Food Net imports: 31 TMT US\$ 2.1 mil (CIF)	1. US – 8% 2. Russia – 33% 3. Hungary - 23% 4. France – 10%	U.S. produced pet food faces competition from EU companies in the premium segment and from U.S. subsidiaries situated in Russia and Hungary in the cheaper segment. American companies capture almost 80% of the market.	The industry is not yet well developed and satisfies about 10% of local demand, predominately in the low-end market segment.
Fish and fish products Net imports: 370 TMT US\$ 13.7mil (CIF)	1. US – 6% 2. Norway – 45% 3. Estonia – 3% 4. Canada – 4% 5. Iceland - 5% 6. Russia – 6%	U.S. share of Ukrainian market is quickly growing while share of traditional exporters (Estonia and CIS countries) is shrinking. Norway promotes its products very aggressively, investing in processing and cold storages. The Russian share is stable and surprisingly low.	Local production is limited mainly by fresh water fish and Black sea basin fish. Atlantic fish quotas for Ukraine are small. Popular fish species are not supplied by local fishermen and have to be imported.

Source: State Customs Committee, FAS Kyiv Calculations.

* Poultry ban (introduced in 2002 and lifted in late 2003) had a long-term negative impact on trade.

** In value

SECTION IV. BEST PRODUCT PROSPECTS

A. Best Product Prospects with Good Sales Potential

The following import sectors are the most developed and most likely will continue to grow in the short term:

- Poultry meat (where U.S. products dominate) will continue to be a major export commodity for the next 3-4 years if no obstacles are imposed. It is likely that local producers of chilled and frozen poultry will be able to expand production and increase their market share. The size of the market is estimated at \$255 million and growing with local producers capable of satisfying only one half of the demand;
- The seafood products market is developing very rapidly. Record high U.S. exports were recorded beginning in 2004 and the market continues to grow at an astounding rate. Insignificant domestic production of low quality products will continue to open the door to imports. The annual consumption of fish and fish products in Ukraine has reached 702 MT in 2006 with a possible growth to 900 MT by 2010.
- Beef and pork offal for further processing (predominately beef liver and tongs) looks very promising. Exports of beef from the U.S. were resumed in 2007 after removal of veterinary technical barriers to trade and the signing of a protocol in March 2006. Upon Ukraine's accession to the WTO (expected in the end of 2007), other meat products will be competitive and demanded in the Ukrainian market
- Almond imports are growing due to the booming Ukrainian confectionary industry. The market for almonds is expected to grow in 2007, and the market will continue to be sizable and attractive to American businesses.

B. Products in Demand but in Smaller Volumes

There are many food products that are not exported to Ukraine in large quantities for various reasons. The major reason is limited consumer incomes. The market for the products listed below is developing and larger quantities are likely to be supplied within 3-5 years. Local production currently is limited and demand, although increasing, is still small:

- Processed vegetables, ready-to-cook dishes and snacks (excluding chips);
- Baby food;
- Cheese and dairy products;
- Wine and hard liquors;
- Food ingredients for processing sector: non-sugar sweeteners, fructose, vegetable oils, protein or vitamin additives for production of diet and health food;
- Products for dietary consumption.

Due to the complicated epizootic situation in European Union countries and declining imports from there, US exporters may discover markets of albumin, dried whole egg powder and yolk, agar-agar, gelatin and similar products.

C. Absent Food Product Imports Due to Significant Barriers

- Some food additives and processed food products containing food additives are not permitted in Ukraine (thickeners, sweeteners, stabilizers, etc.). The list of allowed food additives is available from FAS-Kyiv.

SECTION V. POST CONTACT AND FURTHER INFORMATION

Should you have any questions about this report or need assistance, please do not hesitate to contact the Agricultural Affairs Office in Kyiv at the following Address:

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e-mail: AgKyiv@usda.gov

Homepage: http://Kyiv.usembassy.gov/fasKyiv_index_eng.html

A list of importers is available from FAS Kyiv to exporters of U.S. food products. The Country Commercial Guide, prepared by U.S. Foreign Commercial Service is available at http://www.buyusainfo.net/body2.cfm?dbf=ccg1&search_type2=int&country=Ukraine&logic=and&loadnav=no

For the most recent "Exporter Guide" and product briefs please visit USDA's Foreign Agricultural Service official website at www.fas.usda.gov.