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Ukraine

Retail Food Sector:

Slow Down after Rapid Expansion

2009

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Report Highlights:

After a rapid 7 year expansion, in October 2008 the Ukrainian retail sector entered a period of financial instability with a projected sales decrease of around 20% in 2009. Previously from 2007 through early 2008 the capital city's real estate boom meant that retail industry could only afford growth in smaller towns. Smaller shops developed, and the growth of supermarkets and hypermarkets in cities of over 1 million almost completely halted. By the end of 2008 retailers were indebted to banks. Sales of imported products will likely sink and sales margins are down. Most retailers are expected to put their ambitious expansion programs on hold in 2009.

Includes PSD Changes: No
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SECTION I. MARKET SUMMARY

Ukrainian retail trade in food products has developed rapidly over the past 10 years. This growth has been driven by a strong economy and by an increase in consumers' incomes. Some changes in the expansion pattern were observed in 2007 – early 2008 with more emphasis on small retail formats, shopping malls development and expansion of chains into the regions. October 2008 financial crisis put these rapid expansion trends to the end opening a whole new period in Ukrainian retail development. Many statistical indicators in the report were collected in pre-crisis period and would reflect the “old good days” of the industry boom. Currency crisis is not over with Ukrainian Hryvna (UAH) losing 60% of its value against US dollar. The magnitude of the problem is not clear yet as well as implications for real sector of the economy and consumers incomes. At the same time, it must be noted, that retail sector will remain relatively stable due to its role in sales of necessities. Probably it will also be the first to demonstrate growth after the crisis end.

For 2008, GDP growth rate is quite low at 2.1%, although between 2000 and 2004, the Ukrainian economy grew at a much faster rate of 8.4%. The retail trade turnover in 2008 reached \$85.3 billion. The number of middle and high-income consumers is also on the rise (population's income grew from 370 billion UAH (\$73 billion) in 2005 to 615 billion (\$122 billion) in 2007. Ukraine is becoming more integrated in the global economy and the average Ukrainian lifestyle is also changing drastically. More Ukrainians are traveling abroad and influenced through the mass media and advertising.

Pre-crisis period

In 2007 and 2008 the Ukrainian food retail sector quickly grew with increases in turnover of trade at 29% and 27% respectively. The share of unorganized trade in open-air markets decreased from 29% to 22% over the last two years. Share of chains rapidly grew from 26% to 33% for the same time period. Retailers' expectations were that the market would continue to grow at 20-25% rate until 2011-2012 when some saturation point was foreseen. After capturing the big cities with population over 1 million retailers concentrated on regional expansion. Growth in big urban centers remained attractive, but expansion costs were too high. An overheated real-estate market, problems with permits and distribution of land plots made development of supermarkets problematic. This situation was reflected in A.T. Kearney's Global Retail Development Index (GRDI). In 2005 Ukraine received 87 points (out of 100) and was ranked 4th among countries where international retailers were recommended to do business. Ukraine slipped to 17th place in 2008. In the capital many chains concentrated on a smaller format as an adjustment to fewer available locations. Most self-service grocery stores were opened as replacements of old soviet-style stores where clerks served customers from behind the counter.

Regional development brought new challenges for national retail chains. Strong local competitors were reluctant to give up their market share without a fight when nation-wide chains entered their ground in 2005. All national chains started in the capital Kiev where market size and consumer incomes were the biggest. In the past 3 years the competition fought for market dominance by fighting for the most advantageous real estate. Chains almost gave up trying to win over customers based on satisfaction of consumer preferences. Despite relatively low saturation of the Kiev market, high rents and the cost of real estate drove Ukrainian retail business to expand regionally.

Still, the development of retail in Ukraine continued at a fast pace with no clear distinction of supermarket formats. Any self-service store of 200-300 square meters would declare itself a “supermarket” with competition through low price offers. Some self-organization started only in 2008-2009 with international retailers market entries and growth. Prior to the

financial crisis many retailers saw the following formats worth attention: convenience stores, shopping malls, hypermarkets, and the gourmet grocery store niche. Convenience stores succeeded mostly due to low barriers to entry, abundance of locations and low risks. Over the crisis period convenience grocery stores may remain viable in the near future, but long run industry trends suggest hypermarkets and shopping mall formats are likely to succeed.

Regional expansion was not an easy task for Kiev retailers. Many sale practices successful in Kiev happened to be inefficient in Ukrainian regions. Many good locations were already occupied by local competitors unwilling to give up profitable plots cheaply. Many local chains started their own expansion programs by offering to sell their business to foreign chains or to nationwide competitors at the highest price. This development in turn led to real estate price growth in many regional markets. The local consumers happened to be loyal to local retailers and only significant price discounts could persuade them to switch. The product sets in many regions were very different from those in Kiev with consumers preferring their local brands and local suppliers. Many regional retailers were quite successful and started their expansion into neighboring markets and even in Kiev. Regional chains like Amstor, ATB and Pakko now can be considered nationwide.

State Regulation of the industry was quite messy. On one hand the Government of Ukraine attempted to support farm incomes but also limited food product costs to benefit consumers. After significant food price surges in early 2008, these controversial goals resulted in a law that limited trade margins for many food items to 15%. The list included bread, wheat flour, dairy products, buckwheat groats, meats and some other staple foods. This law was adopted on May 16, 2008. Trade margins of many Ukrainian discount hypermarkets remained under the 15% threshold prescribed by law. On the other hand, convenience stores in city centers would not stay in business if operated at a 15% margin. Many of them rented their space and would have to quit business should the law be enforced. In the end, all Ukrainian retailers found their ways to get around the 15% strictures of the law.

International Expansion and Pre-Crisis Mergers & Acquisitions

Ukraine did not provide good grounds for international chains to expand retail businesses, but slowly got into some underdeveloped foreign market itself. Many Russian retailers viewed Ukraine as a good territory for business development, but none of the retailers was successful. Russian Prekrestok Chain was able to open four locations in Kiev, but stopped. Existing stores did not attract sufficient buyers, offering a very limited number of goods at average price in a "conventional supermarket" format. Another Russian Retailer – Paterson announced an ambitious plan in 2005, but did not move any further.

Facing a shortage of potentially profitable locations, heavy competition from local chains, political obstacles at the local authority level (in bids for land plots) and quickly growing real estate prices, Russian chains started M&A negotiations with major Ukrainian retailers. The price range given by current owners did not satisfy the Russians and no deals were done in 2005-2008. It is not clear whether Russian chains will be able to enter the Ukrainian market on the back of the financial crisis since they experience liquidity problems themselves. Downward trends in retail business have just started at the time of this writing, and no blocks of controlling shares of national-wide chains are yet for sale. Regional retailers available for sale now are of less interest to big players.

Ukrainian expansion into neighboring countries was much more successful. Two of the biggest Ukrainian retailers entered Moldova market. Kviza Trade (Velyka Kyshenia TM) now owns 8 supermarkets (through the purchase of the local chain Green Hills) and Furshet Ltd (La Furshet TM) owns 4 supermarkets including one JV with Auchan.

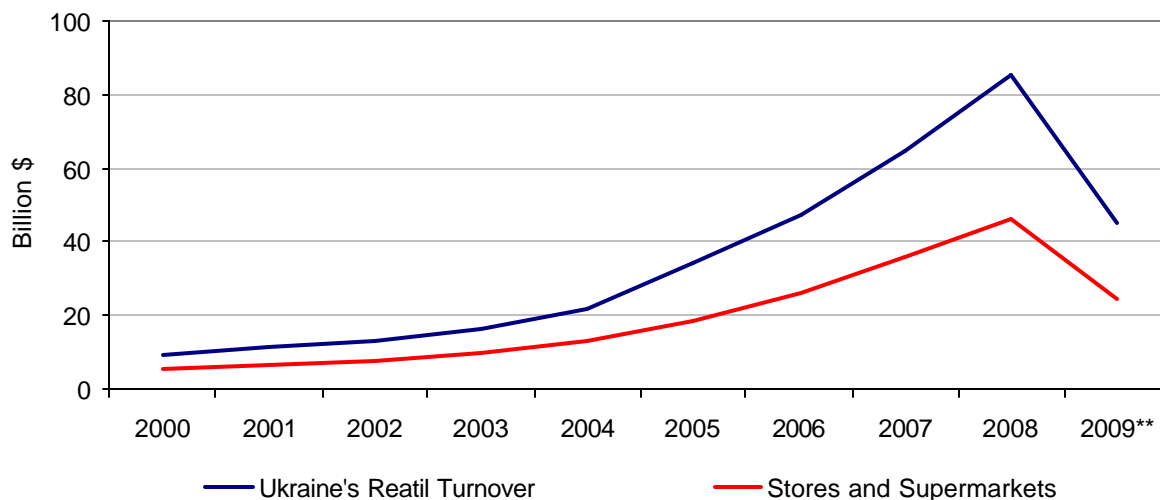
The joint venture of Furshet and Auchan group is a good example of pre-crisis M&A. The merger was finalized in March of 2007. Unable to enter Ukrainian market due to constraints similar to those that Russian retailers face, the French retailer agreed on portfolio investment into the La Furshet chain. The deal is not completely public, but FAS/Kiev is aware that Auchan Group purchased a 20% share of Furshet chain in exchange for an unknown sum of money plus 34% share of Furshet Ltd in any Auchan hypermarket store opened in Ukraine or Moldova. Furshet Ltd. also agreed to facilitate Auchan Group's search for new locations (one plot was provided in Kiev right after the deal) and lobbying its interest at the regional level. Another joint stock company (Auchan Group -60%, Furshet management -30%, independent investor – 10%) will start development of shopping malls in Ukraine.

Auchan market entry is the first western chain entry after Metro Group AG 5 years ago. The Auchan store in Kiev so far is quite successful. The chain management claims that products are offered for sale with 15% price discount to other chains; suppliers are not charged any marketing cost and paid within 2 weeks after the product is sold; the store's 15,000 square meter floor is the biggest in the country with the widest choice of 100,000 products.

Ukrainian Retail in Crisis

Caught in the middle of rapid expansion programs many Ukrainian retailers were not able to service bank loans or to pay their suppliers. Many business growth strategies did not foresee the financial or economic downturn and retailers had no backup plans. Significant problems started in the middle of 2008, when financial resources became scarce and very expensive due to a National Bank of Ukraine policy change. The burden was so significant that many retailers started a strategic investors search offering controlling-share acquisitions. Limited in financial recourses small Ukrainian grocery store chains were the first to suffer. Some companies decided to keep control over their business and proposed only minor shares to address current liquidity problems. Many nation-wide chains are looking for financial support of this type.

Ukraine's Retail Turnover*



*Both food and non-food items

** Forecast

Crisis developments have already led to significant payment delays to food producers and importers. Even before the crisis many suppliers complained about contract terms that allowed for late payments (sometimes 60-90 days). For this reason many producers used distributors or limited their cooperation with Ukrainian retail. Crisis will probably decrease

the amount of imported food and lead to some renaissance of open-market and traditional grocery trade. Many experts predict 20% drop in retail turnover in 2009, but currency devaluation will make situation much worse.

Significant contraction of external financing (no new bank loans or IPOs) will significantly restrain industry growth in the next couple of years. Some favorable factors like a drop in rental costs and general food price decreases will not offset the drop in consumer income. Many regional chains will not survive and will be forced to sell their business to bigger market players.

Crisis Forced M&A

The biggest portfolio investment proposal came from one of the biggest Ukrainian retailers – Kviza Trade Ltd. (Velyka Kyshenia Chain). Facing \$150 million debt, the company put on sale considerable minority share (slightly under 50%) looking for \$200-250 million investment. Ukrainian investment brokerage Dragon Capital and British Royal Bank of Scotland were chosen as sales consultants. The results of the sale are not yet known, but many believe that the company significantly overestimated its value due to plummeting real estate prices and sales drop. The company may start to look for a strategic investor if the financial situation in the country continues to worsen.

Some smaller M&A deals in retail industry are already closed. The financial indicators suggest that nowadays it clearly the buyer's market. Expensive mergers and acquisitions of 2005-07 are in the past.

In the end of 2008 the Midland Group sold its retail business to one of the distributing companies. MD Retail chain of 47 grocery shops in eastern Ukraine was sold for approximately \$20 million. The new owner (Ns Ltd.) announced an ambitious expansion program, but realization of these plans is unlikely. Another \$10-20 million acquisition also took part at the end of 2008. Retail market newcomer –BT Invest Ltd. (Center-D TM) purchased Alen Chain operating in Southern Ukraine. The chain encountered 10 supermarkets and some projects under construction. In end of November 2008 Ukrainian Intermarket Ltd. sold the control share of Barvinok grocery chain to Poland investment fund Abris Capital Partners. The value of the deal is not announced (est. \$16-\$30 million), but Intermarket will remain the minor shareholder in the chain. The company also retains the ownership over potentially more profitable Arsen supermarket chain. Eurotech Ltd. (Fresh TM) sold minority shares (30-35%) to two portfolio investors (IFC and Horizon Capital) in October.

Controlling shares sales or minority share sales are announced by the following regional chains: Nash Kraj, Pakko and Agrokontract from western Ukraine, Amstor from the east and Bolshaja Lozhka from central Ukraine. Potential buyers feel market weakness and probably will purchase regional retailers at a significant discount. Big national-wide chains experience problems by themselves and probably will not actively participate in mergers and acquisitions this year.

Major Retail Trends

According to official statistics, the value of retail trade in foodstuffs in 2005 reached \$7.6 billion, a 37% growth over the previous year. Some industry experts estimate the growth to be 40-50%, taking into account street retail trade and sales of meat, fruits and vegetables in open-air markets (bazaars), which are not included in official statistics. All studies show a rapid growth rate for this modern retail sector with strong development of local food retail chains and entry of foreign retail giants. Almost 10% of total investments in 2008 were

directed to the retail sector. According to official statistics, the annual retail turnover of food products reached only \$566 per capita in 2007 because a substantial part of the population remains at the subsistence level.

Table 1. Per Capita Retail Trade Turnover* (USD)**

Index	2002	2003	2004	2005	2006	2007
Total Trade Turnover	154.5	196.1	267.7	390.9	549.9	758.8
Food Products	74.2	89.4	117.5	162.5	210.3	268.1
Non-Food Products	80.4	106.7	150.2	228.3	339.6	490.7
Turnover in Urban Areas	203.9	259.9	358.5	530.2	742.6	1027.1
Turnover in Rural Areas	53.1	63.9	78.2	97.0	140.6	183.4

Source: State Statistics Committee of Ukraine

* The numbers in the table do not include private trade and open-air market trade.

**Official annual average hryvnya-to-dollar rate was used to convert Ukrainian Hryvnas (UAH) to U.S. dollars.

The share of imported goods in food retail is relatively low and limited by innovative and high value added products, although in organized retail outlets and in urban areas it is substantially higher. These outlets are where a substantial amount of unofficial imported product is sold. Larger cities and densely populated urban areas account for the largest share of retail trade turnover (Kyiv city captures 20% of the market, Dnipropetrivsk region – 9%, Donetsk region – 9%, Kharkiv region – 7%, and Odessa region – 6%).

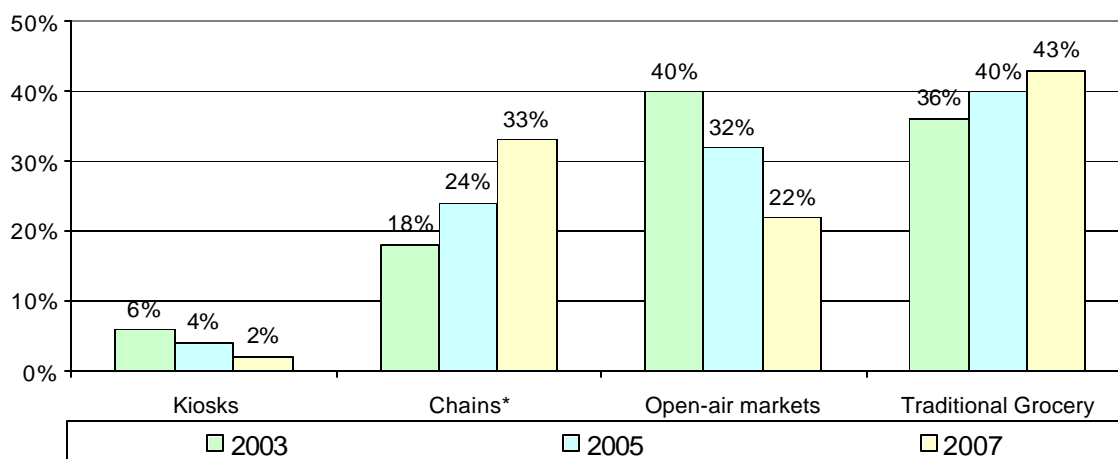
Table 2. Pattern of Food Product Sales, (million USD)

Index	2004		2005		2006		2007	
	%	USD mn	%	USD mn	%	USD mn	%	USD mn
Domestically produced goods	92	5,126	90	6197	89	7,868	88	9,858
Imported items	8	445	9	620	10	942	11	1,318
Total Food Turnover	100	5,572	100	6817	100	8,811	100	11,177

Source: State Statistics Committee of Ukraine

Ukraine's food product retail sector continues to develop and has a strong growth potential. Despite the growing number of supermarkets, traditional groceries and open-air markets remain the most popular retail outlet. In Kyiv, which captures approximately 1/5 of the food-product market and where 1/6 of the country's hypermarkets and supermarkets are located, open-air market sales account for between 30-35% of prepared food-products and 70-80% of fresh meat. Open-air outlets account for 22% of national retail sales for the entire country for the same period although some experts give them significantly higher share.

Ukraine's Retail Trade Structure 2003 vs. 2007



Source: Industry Experts' and FAS/Kiev Estimates

*Chains would include convenience store and grocery chains.

Supermarket chains in Ukraine are developing rapidly, increasing their share of retail sales and driving out previously popular forms of retail trade. Despite the current small share, hyper- and supermarkets are expected to account for 50% of retail food sales by 2011; chain convenience stores/discounters will capture 20-30% share, open-air markets 15%, traditional stores (groceries, over-the-counter trade stores) 10-15%, and other outlets 10%.

"La Furshet" supermarket chain is a good example to demonstrate the rapid growth of the industry. La Furshet consisted of 15 outlets in 2002 reaching 150 by January 2009 (10 times growth in 7 years). Nearly 550 mini-, super-, and hypermarkets were operational in Ukraine in 2001. That number increased to approximately 616 stores in 2002, 690 stores in 2003 and to 1,441 in 2007. The payback period for the average retail outlet is 5 to 7 years in Ukraine (for 2009) compared to 10-15 years in EU countries. In 2006, some large chains began CAP software installation to optimize logistics and promotion programs.

Many Ukrainian supermarkets launched discount programs to encourage frequent buyers, low-income consumers or retirees. Many still operates simple discount programs (the cheapest to introduce and retain) while big nationwide chains switched to western-like bonus programs. Some (La Furshet <http://furshet.ua/> and Megamarket <http://www.megamarket.ua>) offer on-line services with office or home deliveries. Others practice telephone shopping.

The largest chains have their own kitchens, mini-bakeries and processing shops. These departments allow chain stores to offer customers a variety of ready-made food products and semi-finished products. This includes various ready-made salads, bakery products, packaged meat cuts, fish and frozen semi-finished products. Supermarkets are also used as anchor stores in shopping centers and malls. In Ukraine shopping centers usually include boutiques, movie theaters, cafes, and restaurants (often connected to the food court). Due to the slow development of shopping centers, many retailers have rented out space to other non-food vendors.

Ukraine is one of the most populated countries in Europe. A steady increase in personal incomes before 2009 has had a positive impact on the development of the retail sector (an increase of 25% in 2007). Individual income growth rates and the growth in the retail sector coincide. During the past 8 years, only 3 large European retailers (Billa, Metro and Auchan)

entered the Ukrainian market to benefit from the strong growth (Spar operates on franchising agreement). Usually, retailers enter markets in large urban areas, followed by expansion into smaller cities and towns. Although local supermarket chains still outpace foreign companies in terms of the number of outlets, foreign outlets have much better logistics, tested market-entry strategies, excellent personnel-training techniques, well-established connections to suppliers and solid financial support. All these lead to a situation when 3 western companies are responsible for over 40% of Ukraine's organized large scale retail market. Well-established and quickly growing local retail networks are attractive to foreign investors.

Advantages and Problems for US Exporters

Advantages	Problems
Population of 46.4 million people; a number of consumers can afford purchasing high-quality food products	Due to economic crisis and erosion of incomes, majority of consumers continue to save money on food or rely on home produced foodstuffs.
Demand for higher quality food products is growing.	Volume of sales of higher quality food products is expected to shrink.
Ukraine's retail sector is on the rise, which creates a number of opportunities to the perspective U.S. exporters.	Frequently changing trade legislation and policies often impact trade. Import tariffs were lowered by WTO accession but threatened with hikes "to protect Balance of Trade."
Urban life style changes increase demand for semi-finished and ready-to-cook products	Rapid development of local manufacturers of ready-to-cook products creates tough competition for similar imported goods
American-made food and drinks are still new for the majority of the population, but rather popular among the younger generation;	Growing number of domestically produced generic products; lack of knowledge towards American products
In general retailers are open to new products in order to attract customers	Strong competition with suppliers of similar products from Russia and European Union
Existence of large importers experienced in importing food products to Ukraine	High corruption, difficulties in finding a reliable partner or distributor

SECTION II. ROADMAP FOR MARKET ENTRY

ENTRY STRATEGY

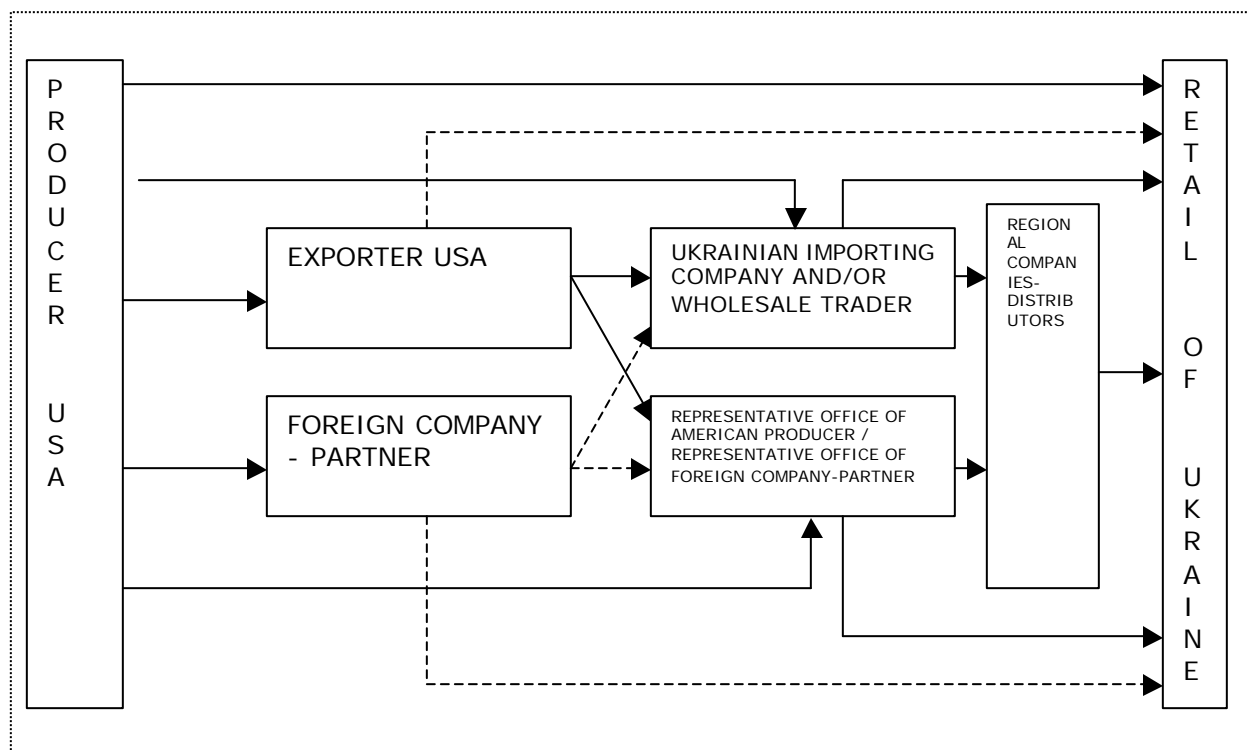
Every company must choose its own market-entry strategy that is dependant on preliminary market research results and the type of promoted product. The strategy is also dependant on the company's financial strength. However, some basic strategy trends exist for products entering the Ukrainian market:

- A perspective entrant is advised to estimate market perspectives of the product with respect to consumer preferences and incomes, local competition and sales channels (marketing research from a specialized consulting firm may be required).
- A visit to a food-product fair in Ukraine may be very helpful. These events can provide a market snapshot, as well as to identify perspective importers and wholesale vendors. Usually only large companies participate in these fairs.
- Meetings with representatives of state regulatory bodies in order to obtain additional information on import requirements. Companies are advised to use services provided by their embassies, consultants and foreign partner companies already doing business in Ukraine.

- In order to make the first delivery, usually a large local import company is chosen. The company has to have a good reputation and experience in customs clearance, and must have storage facilities and a developed distribution network. Make sure the company has experience working with Western suppliers and has experience in arranging regular supplies of food products. Western companies that strive to supply directly, circumventing Ukrainian mediators, often sustain losses due to lack of local market knowledge. A large domestic import company is usually bettered adjusted to local conditions, with established trade ties and contacts in state structures. Ukraine remains a country where personal contacts play an important role in business.
- Should exporting company decide to open a representative office, it should be located in Kyiv, where government authorities are concentrated or in other large cities.
- Ukrainian import duty rates for food products are very uneven. Import duties for unprocessed goods or goods in large packages are often zero. Often these commodities require only minimal processing (frying, adding salt, packaging for retail trade). Duties for packaged and ready for sale products are higher. Many companies test the market with finished products, and then look to process and package locally if the product is a success. This way they manage to reduce custom clearance costs. Many importers package tea, muesli, chocolates, chips, roast nuts and coffee beans in Ukraine. Packaging or production is often conducted in Russia or other Commonwealth of Independent States (CIS) countries. The commodity can be imported from these countries under Free Trade Agreements (FTA). FTAs are in place for 11 CIS countries. However, a potential importer should weight transportation and certification costs.
- Supermarket entry costs varies greatly in Ukraine. Charges include a company's entrance fee, a shelving fee for each commodity, designated shelf fees, and a fee for positioning a pallet in the sales area. Entrance fees, designated shelves and pallets would amount to approximately \$100-250 each. Some payments are made once, and others are monthly charges. The exporter should be ready to pay the retailer a percentage of the trade turnover (calculated from sales or per 1 meter of shelf space). These payments are also made on monthly, quarterly or annual basis. There will be some payments associated with retail chain marketing costs, advertising booklets and in-store promotion actions. The total sum for all services and fees will range from \$1,000 to \$1,500, per commodity per store. All fees are negotiable and depend on a product type.

MARKET STRUCTURE

Food Retail Distribution Channels



Distribution Channels

The vast majority of importers/distributors have offices in Kyiv or in the large Black Sea port of Odessa. Portside offices are often used solely for customs clearance procedures. Following arrival at port, the product is then shipped to Kyiv. From Kyiv the consignment is then distributed to the regions or directly delivered to regional distributors. Some importing companies purchase goods on CIP Kyiv terms and then customs clear in Kyiv. Truck deliveries from Western European ports are much more expensive and rarely practiced. Typically large importers supply a number of commodities to Ukraine. Some companies have exclusive contracts for distribution of food products in Ukraine, however there are cases of several distributors having the right to distribute a single product. Often Ukrainian representative offices finalize agreements to be the exclusive supplier of goods to certain regional distributors. Retailers can cancel a direct supply contract with the representative office when it is unprofitable for a regional distributor to supply the retailer. There are several companies in Ukraine that pretend to be national distributors capable of regular deliveries of goods to retail trade companies all over Ukraine, however, these companies don't have such an efficient or far reaching distribution system.

Types of Retailers

As reported by the State Statistics Committee of Ukraine, the number of retail trade outlets selling food products reached 27,719 in 2007. Over past few years, the number of retailers was on the decline (5%-10% annually), while the average floor space increased 4-7% annually. Many small food shops continue to go out of business.

Table 3. Number of Retail Trade Food-Product Companies by Type of Outlet

Indicator	2003		2006		2007	
	Number	Floor space, ths. sq.m	Number	Floor space, ths. sq.m	Number	Floor space, ths. sq.m
Total	38,422	3,578	54581	6,846	52315	7,493
Food stores with expanded stock list*	34,286	3,294	29,577	3,744	27,719	3,969
Including:						
Groceries, supermarkets	652	536	986	885	1141	1043
Hypermarkets	38	148	108	566	144	802
Specialized food stores	4,136	285	3,363	223	3,167	216
Self service	1,563	490,161	25604	n/a	24750	n/a

*including mixed stores (with different assortments)

Source: State Statistics Committee of Ukraine

Given the quickly growing number of super- and hypermarkets, experts estimate market share at 33%, but growing quickly. 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 the wide assortment of products and at low prices. Supermarkets are not driving completely 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 early 1990's. Large trade centers with a self-service system (the Soviet counterpart to supermarkets) built in the Soviet Union ceased to exist after the first year of Ukraine's independence. Later, individuals or businesses purchased many 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 match western standards floor space, product assortment, and quality of service.

According to the State Statistics Committee, there were 144 hypermarkets (and shopping centers) in Ukraine in 2007, or 15% (36) more than the previous year. The floor space of an average Ukrainian hypermarket was 5,572 square meters. The number of supermarkets (universal self-service stores) increased by 16% (to 1441) in 2007. The average floor space of a Ukrainian supermarket grew from 822 square meters in 2005 to 914 square meters in 2007. 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.

Foreign chains Billa (Austria), Metro Cash and Carry (Germany), Auchan (France), Perekrestok (Russia) and SPAR (keeps reselling its franchising label to different companies) entered the Ukrainian market during 2001-2005. Initially they opened their outlets in Kyiv as the most promising center for retail trade. Later they began a regional expansion project to other large cities. Only Metro and Auchan (with La Furshet help) were successful in their regional expansion. Most Russian chains stuck in Kiev abandoning previously expansion plans. Other international giants - Tesco (Great Britain), Auchan and Carrefour (France) are carrying out market research in Ukraine. Also, domestic retail chains are developing rapidly: Fozzy discounters and Silpo supermarkets (Fozzy Group), La Furshet supermarkets (Garantiya-Trade LLC.), Velyka Kishenya supermarkets (Quiza-Trade LLC.), and ATB supermarkets (ABT Corp.).

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 attracted 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. In particular, as reported by the State Statistics Committee of Ukraine, there were 151 such trade companies (126 supermarket and 25 hypermarkets) in 2007 in Kyiv. Concomitantly, trade analysts estimate the Kyiv market can sustain 350–400 supermarkets. 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 25-30% of all demand. Operators agree that the market for larger stores will continue to develop in the near-term despite economy 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).

Table 4. Hypermarkets and Supermarkets Chains in Ukraine (2 and More Outlets)

Retailer Name and Outlet Type	Ownership	Sales in 2007 million US dollars	No. of outlets as of 2009	Locations	Purchasing Agent Type
Sil'po supermarket	Fozzy Group		150	Nation -wide	Direct/importer

Fozzy, C&C		Over 1,500 (including Fora chain)	4	Nation - wide	
Metro, C&C	Metro Cash and Carry ("Metro AG" Germany)	1202	8	Nation-wide	direct/importer
Furshet, supermarket	LLC Garantiya - Trade	>800	105	Nation-wide	Direct/wholesaler/importer
Auchan	Auchan Group (France) and Furshet JV	n/a	2	Nation-wide	Direct/importer
Velyka Kishenya, supermarket	Retail Group Holding	556	50	Nation-wide	Direct/importer
Amstor	Midland Resources Holding Ltd	~600	23	Eastern Ukraine	Direct/importer
Tavriya-V, supermarket (5), hypermarket (2)	Tavriya-V LLC	>250	9	Southern Ukraine	Wholesaler/Direct/importer
Billa, supermarket	Billa-Ukraine (Reve Group Austria,)	> 200	11	Nation-wide	Direct/importer
PAKKO, supermarkets	Pakko Corp.	235	96	Western Ukraine	Direct/importer
Vopak, C&C					
Perekrestok-Ukraine	X5 Retail Group (Russia)	> 200	8	Central Ukraine	Direct/importer/wholesaler
ECO-Market supermarket	Bayadera Ltd.	220	48	Kyiv/Odessa/Sumy/Cherkassy	wholesaler/direct/importer
Intermarket, C&C Arsen, supermarket,	Intermarket	211 (including Barvinok grocery)	7	Lviv/Drogobych/Truskavets/Borislav	wholesaler/direct/importer
PIK, Spar, Eurospar	CJSC KS Trading	> 55	14	Central Ukraine	Direct/wholesaler/importer
Mega-Market, supermarket	Founder - Victor Yushkovskiy	N/A	4	Kyiv	Direct/importer
Big Spoon, supermarket	N/A	96	39	Central Ukraine	wholesaler/direct/importer
Natalka-Market, supermarket	"Natalka-Market" CJSC	50	7	Odessa	wholesaler/direct/importer

*Sources: Companies own information, expert estimates, FAS/Kyiv estimates

Kiosks and Gas Marts

The number of kiosks, which were popular trade outlets in 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 survived 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.

Table 5. Kiosks and Gas Stations in Ukraine*

	2001	2002	2003	2004	2005	2006	2007
Number of kiosks (stalls)	24,116	22,469	21,499	20,200	19,400	18,970	19,573
Share of kiosks in convenience goods market, %	8	7	6	5	3	2	2
Number of gas stations	4,396	4,688	5,053	5,225	5,500	5,913	6,280

Chain Convenience Stores and Self-service Groceries

Chain grocery stores are not yet very common in Ukraine, although becoming more so. Shortage of suitable land plots make many retailers to pay attention to the smaller formats. The Fozzy Group is developing a network of Fora grocery stores. According to the management, the chain may slow down development of its Silpo supermarkets chain, but will not cut back on its For a 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 69 stores, although these stores are quite close to supermarkets in size. Usually groceries are located in suburbs (sleeping districts of big cities), offer a narrow product range and have limited floor space. These new groceries are quickly replacing the Soviet-style food stores with over-the-counter trade. The average floor space varies from 300 to 500 square meters. Stock lists include an average of 1,500 and 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.

Table 6. The Largest Convenience Store Chains in Ukraine

Chain Name	Owner/managing company	Type of the company	Trade outlet type	Number of outlets	Location
ATB	Corporation ATB (Ukraine) There are also discounters working under the same brand	Direct/wholesaler/importer	Convenience store	157	Nation-wide
Fora	Fozzy Group (Ukraine)	Direct / importer	Grocery / Discounter	135	Nation-wide
Rainford	Trade and industrial group Rainford	Wholesaler / importer	Grocery / Convenience store	Over 30	Central Ukraine
Barvinok	Abris Capital Partners (Poland)	Wholesaler/direct/importer	Grocery	24	Western Ukraine
Torgovyi Svit	Roveks	Wholesaler/direct/importer	Grocery	17	Western Ukraine
Mars	Trade House Mars	Wholesaler/direct/importer	Grocery	14	Eastern Ukraine
Natalka Market	Natalka Trade	Wholesaler/direct/importer	Grocery	7	South Ukraine
Obzhora	N/A	Wholesaler/importer	Grocery	8	Donetsk city
Kopeyka	Vit Almi LLC (Ukraine)	Wholesaler/importer	Convenience store	9	8 – Odessa 1 – Izmail

**Sources: Companies own information, open press, FAS Estimates*

Traditional Outlets: Independent Grocery Stores and Open-Air Markets

Soviet-style stores with over-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 the few number of downtown dwellers. 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 small product line, higher prices, clumsy 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 cheap 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.

As reported by the State Statistics Committee of Ukraine, there were 2,866 open-air markets (bazaars) of all types in Ukraine in 2005, including almost 500 food-product open-air markets. Twenty-six food open-air markets are located in Kyiv. At the same time, mixed open-air markets (rynoks) trading in both foodstuffs and non-food goods prevail in Ukraine (account for approximately 55% of the total number of markets of all types in Ukraine). The largest number of food-product open-air markets in Ukraine are concentrated in the most populated regions. Typical Ukrainian open-air markets would include a space for farmers, while over-the-counter kiosks sell packed and processed products. The open-air market kiosks zone would trade in low and middle cost products. Many people think that food products in traditional open-air markets are cheaper than in supermarkets. Elderly consumers are also confident in the high quality of products offered at these wholesale open-air markets.

According to experts' estimates, in 2005, approximately 40-45% of trade in 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.

Improvement of service standards in open-air markets would lead to a marginal increase in competitiveness, but long-term prospects are still not very promising. Some renovated central open-air markets for food products in large cities were transformed into traditional elite supermarkets offering high-quality products. Bessarabskiy and Volodymyrskiy bazaars in Kyiv are good examples. These open-air markets located in the historical part of the city serve as shopping destinations for foreigners living in Kyiv and the Ukrainian elite. This category of markets can be interesting for American exporters of specialty meat products, seafood, semi-finished goods, microwaveable foods, mixtures of exotic dried fruits, nuts, confectionery goods, alcohol drinks, and traditional U.S. consumer food products, which ordinary supermarkets find inconvenient to stock due to low demand.

Table 7. Number of Markets (bazaars) Offering Consumer Goods in Ukraine

	2000	2001	2002	2003	2004	2005	2006	2007
Total	2,514	2,715	2,863	2,891	2,869	2,886	2,890	2,834
Food products	634	772	666	597	-	-	-	477
Non-food products	511	608	725	708	-	-	-	712
Mixed	1,369	1,335	1,472	1,586	-	-	-	1,645

Source: State Statistics Committee of Ukraine

It is quite likely that the number of traditional groceries, kiosks, and bazaars will decrease in the future, while the number of hypermarkets, supermarkets and self-service convenience stores would grow. Open-air markets together with "vegetable-fruit" stalls will compete strongly with modern stores in retail sales of fruits and vegetables. The number of kiosks will likely also diminish.

MARKET TRENDS

Private Label

In recent 2 years all nation-wide retail chains developed own private-label programs. In most cases chain propose cheap and mid-price products in fruit juice, canned vegetables, dry fruits, grocery, frozen dumplings and seafood product groups. Many chains sale products produced on their own facilities (mostly frozen products) that are not clearly labeled as supermarket's private label or sold as no-name white label product. Own ready-to-eat products produced on sites also not "private-labeled".

Most of chains sale only food private labels, but Silpo Chain already proposed some non-food items under "Premia" private label. In 2008 Metro C&C Ukraine also launched its "H-Line" label proposing over 60 food and non-food items. The price difference in comparison to branded competitors range between 5% and 20%.

Retailers see private label benefit in exclusion of third party distribution component from the logistics chain as well as minimization of promotion costs. Some cost is also saved during bidding process when supplier is chosen. It is too early to estimate the success of private-label programs in Ukraine since they are relatively short-term and coincided with significant changes in loyalty programs run by many big chains. Common for the western hemisphere reliance on grocery items for private-label program is not evident in Ukraine. Private label bundle are quite diverse and do not coincide form chain to chain.

Modern Trade Promotion Methods

Chain stores regularly train their personnel and experiment with product layout, in order to maximize profits from one square meter of floor space. Many supplier companies have their own display schemes (for example, "Hipp GmbH" infant food producer. In store new product tasting and promotion campaigns are also quite frequent.

Many supermarkets are equipped with television screens for demonstrating various commercials promoting goods and services. Traditional poster and panel advertisements are also popular. The largest supermarkets issue their own advertising booklets and discount coupons. They also practice direct-mail distribution of these booklets to potential customers and publish advertisements devoted to products or one specific country. In particular, one such edition published by Furshet was devoted to products of German origin. These methods can be applied to U.S. product advertisement.

Loyalty programs dedicated to specific brands have been launched in 2006. The goal of these programs is to create long-term brand loyalty between consumer and manufacturer. Producers attempt to reduce marketing costs by developing marketing campaigns that represent more than one company. The main incentive tool used by program members is targeted coupons.

Digital technologies, such as mobile marketing, are widely used for Sales Promotion purposes. Scratch cards is a tool that enables producers to link promotions with retail outlets. There are a number of in-store marketing technologies, which were purchased from the United States in 2006. Among them are in-store couponing (operated by Coupon Management System company from the Prospects Group) and on-floor stickers (operated by Floorgrafics, U.S.). Different refunds and rebates schemes have been tested by Prospects Company over the past three years.

Market Power

In the early days of the Ukrainian retail (2000 – 2002) sector, producers of food and agricultural products could dictate to supermarkets terms for positioning, marketing and payments of goods. Food products were viewed as anchor commodities attracting consumers to new supermarkets. The situation changed rapidly in 2004-2007, when retail chains acquired a significant market share in larger cities, attracting middle and high-income consumers. Retailers quickly realized that control over targeted consumers gave them control over producers. Producers of hard liquors, vodka and dairy products publicized these new problems, while many other suppliers preferred to keep these issues quiet. Most problems were related to retailer recommended prices and price discounts, some to product placement and associated fees. The threshold used to introduce products in Ukrainian supermarkets remains quite low if compared to Western chains, but it seems excessively high to many Ukrainian producers.

SECTION III. COMPETITION

The Government of Ukraine took a number of steps to protect domestic producers of food product in the mid-1990. This resulted in high import tariffs and a complicated system of sanitary and phytosanitary requirements. The economic crisis of 1998 abruptly decreased individual incomes and drove consumers to purchase cheaper domestically produced products. All of these factors contributed to the robust development of the domestic food-products industry. Production of dairy and meat products (sausages, smoked foods), soft drinks, mineral water, juices, beer, confectionery, various appetizers, and chilled chicken meat is on the increase. Introduction of high import duties made legal imports of many foreign food products unprofitable, while the Ukrainian market remained open to food products originating in Russia and other CIS countries. The Free Trade Agreement among CIS countries facilitated trade. Russian-made products were charged only the value-added tax, which make their price comparable to similar Ukrainian products. Many imports from EU and the United States cannot compete on price with CIS goods.

Table 8. Main Delivery Sources and Volumes of Specific Product Imports to Ukraine

Product Category	Major Supply Sources	Strength of Key Supplying Countries	Advantages and Disadvantages of Local Suppliers
Poultry Net Imports: 142 ths. tons US 64 ths. tons	1. USA 46% 2. Germany 16% 3. UK 11%	USA MDM and offal is much cheaper; Brazilians have price advantage in whole birds supplies, EU in geographical proximity	Production is intensively growing. Producers can supply chilled product; supply of domestic chicken is insufficient.
Pork Net Imports: 46 ths. tons US 1 ths. tons	Brazil 62% China 19% Poland 12%	Much lower prices, stable quality	Highly inefficient pork production in private households and in majority of industrial farms; Some production rebound in 2006 based on renewed technologies.
Beef Net Imports: 31 ths. tons	Brazil 61% Argentina 19% Georgia 15%	Much lower prices, stable quality	Highly inefficient beef production in private households and in industrial farms, lack of beef cattle

US – No Supplies			and lack of high-quality beef
Fish and Seafood Net Imports: 371 ths. tons US 1 ths. tons	Norway 45% Iceland 7% Russia 6% Estonia 5% United States 5%	Norway supplies the wide range of products and secures regular deliveries. Norwegian exporters use state promotion programs	Outdated cold storage facilities and fleet, outmoded processing facilities, problems with securing quotas for fishing in international waters
Fresh vegetables Net Imports: 20 ths. tons US 0 ths. tons	China 19% Poland 15% Spain 9% Netherlands 8%	High stable quality of vegetables produced in Western European countries, low prices for the products originated from the CIS states	A lot of people grow vegetables on their household plots; Bigger farms lack modern storage and processing facilities; stable supplies of the produce to the retail trade networks are complicated
Frozen vegetables Net Imports: 3 ths. tons US 0 ths. tons	Poland 64% Sweden 17% Belgium 7%	Polish companies dominate on the market due to high quality, recognition of trademarks and distribution system	Inefficient production; growing demand in large cities
Fruits fresh and dried Net Imports: 652 ths. tons US 1 ths. tons	Ecuador 34% Turkey 22% Egypt 6% Moldova 6%	Countries of South America, Spain, Georgia, and Azerbaijan supply citrus fruits at right price/quality ratio	Essential volume of smuggling especially from Poland and the CIS states as well as lack of storage facilities; low cost of local production
Tree nuts (peanuts excluded) Net Imports: 8 ths. tons US 1 ths. tons	Turkey 39% Azerbaijan 17% Germany 15% USA 5%	Turkey mainly supplies hazelnut and pistachios at low prices, Azerbaijan – hazelnut, and the USA - almonds	Lack of large-scale industrial production of nuts; Intensively developing confectionery industry
Canned vegetables and fruits Net Imports: 138 ths. tons US 0 ths. tons	Uzbekistan 20% Russia 16% Netherlands 12%	Well established trade relations and well known trademarks; abundance of smuggled import; Hungary (vegetables) and Spain (olives) dominate on the market	Local producers quickly update the facilities availability of cheap raw materials, traditional local brands
Fruit juices and concentrates	Netherlands 21% Russia 20%	Western countries supply products of	Local production of apple concentrate, tomato paste,

Net Imports: 50 ths. tons US 112 tons	Moldova 10%	very high quality. Russian products are of low price and good quality	and berries partially satisfy domestic demand; high dependence on imported concentrates; High competition with ready-made Russian juice; growing demand for juices, healthy drink image of juice
Rice Net Imports: 127 ths. tons US 111 tons	Egypt 60% Vietnam 11% India 10%	Vietnam and China are competitive due to low prices. India and the USA boast with high quality, meanwhile high prices position American rice in premium segment	Local industry satisfies only half of domestic consumption; high product price and low quality, stable demand
Beer Net Imports: 32 million liters US 0 liters	Russia 93% Germany 2% Czech Rep. 1%	Broad assortment of Russian-made reasonably priced beer (zero import duty due to FTA).	Steady demand for locally produced product, modern production facilities, broad assortment, good quality, and low prices.
Wine Net Imports: 23 million liters US 8 ths. liters	Moldova 70% Hungary 10% Georgia 12% France 2% USA <1%	CIS origin wine is reasonably priced and has traditional brands. Western Wines are occupy the upper segment and perceived as high quality ones	Steady demand for locally produced wines; production experience; broad assortment and low prices; poor positioning of high quality vintage wines; traditional preference to sweetened wines
Liqueurs, other hard alcohol drinks Net Imports: 5.2 million liters US 16 ths. liters	Azerbaijan 31% Georgia 30% Armenia 9%	Good quality, reasonable prices for traditional Armenian, Georgian and Bulgarian cognacs; High demand for not traditional beverages (tequila, whisky, rum, and gin).	High quality and broad assortment of locally manufactured alcohol drinks; dependence on imported cognac spirits; black market of hard alcohol drinks; low quality of low price segment product.
Pet food Net Imports: 31 ths. tons US 6 ths. tons	Hungary 27% Russia 26% USA 18%	Exports of well-known pet food trademarks from Russia dominate in low segment. U.S. brands are perceived as high quality ones	Traditionally high number of home pets, large market potential; low demand for industrially produced pet food

Sources: State Statistics Committee of Ukraine, expert estimates

SECTION IV. BEST PRODUCT PROSPECTS

Category A: Products Present on the Market With Good Sales Potential

Product	2005 Market volume	2005 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	426 ths. tons	137 ths. tons	70%	30% but no less than € 1.5 per 1 kg for poultry parts; 10% but no less than € 0.4 per 1 kg for whole birds; € 0.7 per 1 kg for leg quarters;	High customs duties; Former Free Economic Zones remain the only import outlet; 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 the demand in near future. U.S. product has the right price/quality ratio compared to Brazil and EU product.
Beef	542 ths. tons	42 ths. tons	Over 900%	10% or € 0.6 per 1 kg for Carcasses, Halves and quarters; 20% for offal; € 1 per 1 kg of beef cuts.	Veterinary certificate pending; High import duties, consumer unawareness of U.S. high quality beef; Sizable domestic production	Insignificant specialized beef production; Constantly growing beef prices; Niche markets for meat delicacies (steak, etc.) and meat offal; Fast HRI development.
Pork	534 ths. tons	52 ths. tons	Over 250%	10% or € 0.6 per 1 kg for Carcasses, Halves and quarters; € 1 per 1 kg for other cuts and offal.	Veterinary certificate pending; High import duties; Gradual recovery of local production; Competition from Brazilian pork and Polish smuggled pork.	Shortage of pork in the country; high prices; Demand for stable deliveries of both cheap and high quality product.
Fish and Seafood	605 ths. tons	371 ths. tons	24%	0 – 5% for all frozen fish; 10%	Regular deliveries of high quality produce from	Growing demand for higher quality seafood

				for prepared fish, live fish, Mackerel, Trout, some Crustaceans, Anchovy, Salmon and Lobsters.	Norway; Shortage of suitable trade equipment at retail trade outlets; Deficit of proper storage facilities with below -20C temperature.	from consumers; Very modest assortment in the market; Skyrocketing demand from supermarkets and HRI sector.
Dried fruits and nuts (exclude peanuts)	115 ths. tons	8.1 ths. tones	20%	0% in packages less than 10 kg (20% but no less than € 0.2 per 1 kg in packages less than 10 kg; € 0.1 per 1 kg of dried fruits excluding raisins) + VAT in the amount of 20%+ 0.2% for customs services	Sharp competition with Iran and Turkey. Desire of packers to save on raw stock, procuring low quality stock from Iran, Uzbekistan, and Afghanistan	Intensive development of confectionery industry and start of retail sale of rare dried fruits (exceed world prices by 3 – 6 times). High quality of U.S. product; Development of premium-class confectionery products
Canned fruits and vegetables	413 ths. tons	88 ths. tons	Less than 1%	€ 1 per 1 gross kg +VAT in the amount of 20%+ 0.2% for customs services	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.
Rice	375 ths. tons	127 ths. tons	25%	10% but no less than EUR 0.03 per 1 kg	Availability of locally produced product; large imports of	Market for high-quality American rice as premium

					cheap Vietnamese rice; high competition from other cereals	class product; emerging niche markets for parboiled rice, brown rice, wild rice, rice with different additives, etc.
Wine and spirits	250 million liters	28.7 million liters	Over 150%	€ 2-3 per 1 liter of wine, € 7.5 per 1 liter of 100% alcohol for hard liquors + excise tax (UAH 1.6 per 1 liter of champagne, UAH 0.8 per 1 liter of wine, UAH 16 per 1 liter of 100% alcohol)	High import duties, tough competition with Ukrainian-made spirits and drinks produced in the CIS states	Relatively high level of alcohol drink consumption; Demand for exotic drinks (whiskey, gin, rum, bourbon).
Pet food	46.0 ths. tons	31.4 ths. tons	7%	€ 0.05 per 1 kg	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

Category B: Products Not Present in Large Quantities but with Good Sales Potential

- Premium-class food products: meat specialties (meat for further cooking – steaks, fillet, etc.), smoked meat, cheese;
- Exotic seafood, ready-made high-quality canned fish;
- Cereals: muesli, instant porridge, ready-made rice, different sorts of ready-made packed rice;
- Food for diabetics;
- Specialized infant food, canned vegetables and infant fruit food;
- Exotic drinks/juices (from exotic fruits, energy drinks, vitamin drinks, root beer), drink concentrate, traditional drinks with different additives (tea/hot chocolate with additives);
- Semi-prepared goods, ready-made frozen food, microwaveable food;
- Packed food ingredients of high quality for cooking (brown sugar, sugar powder, high-quality spices, etc.)

- High-quality beer snacks (a rapid increase in beer consumption over the last several years and stable forecasts regarding beer consumption growth in the future).
- The future aging of the population creates a niche market for this category of costumers. The low current incomes of this category make this market profitable only in the future.

Category C: Products Not Present Because They Face Significant Barriers (with barriers indicated)

- Mid range ready-to-eat meat products (smoked meat, sausages, hotdogs) – high import duties (30%, but not less than 1.2 EUR/kg + 20% VAT) – high competition of similar Ukrainian products;
- Inexpensive imported chocolates - high import duties (0.5 EUR/kg + 20% VAT) – high competition from similar Ukrainian products;

SECTION V. ATTACHMENTS

Product Structure of Retail Trade Turnover

Product	2005	2006	2007	2005	2006	2007
	Million UAH			%		
All Commodities	94332,4	129951,7	178232,6	100,0	100,0	100,0
Foodstuffs	34939,2	44497,8	56444,4	37,1	34,2	31,6
Meat and Products	5175,3	6771,0	8447,3	5,5	5,2	4,7
Fish and Products	1555,3	1917,5	2624,6	1,6	1,5	1,5
Canned Vegetables And Fruits	742,1	873,0	990,1	0,8	0,7	0,6
Butter	409,5	506,3	636,2	0,4	0,4	0,3
Vegitanle Oil	416,1	484,8	672,5	0,4	0,4	0,4
Other Animal Fats and Margarine	484,1	352,8	354,8	0,5	0,2	0,2
Milk and Dairy Products	1809,0	2338,7	3083,7	1,9	1,8	1,7
Cheese	847,7	1137,1	1642,9	0,9	0,9	0,9
Eggs	441,5	482,3	685,5	0,5	0,4	0,4
Sugar	432,2	508,1	548	0,5	0,4	0,3
Conditerey	2799,5	3649,4	4479,9	3,0	2,8	2,5
Tea	338,2	482,5	643,8	0,4	0,4	0,4
Coffee	628,5	865,8	1091,7	0,7	0,7	0,6
Sault	37,4	46,5	51,2	0	0	0
Bakery	1699,2	1802,5	2009,4	1,8	1,4	1,1
Flour, Groats	853,9	1165	1504,2	0,9	0,9	0,8
Flour	205	211,4	271,8	0,2	0,2	0,2
Groats and Legumes	372,1	513,6	618,3	0,4	0,4	0,3
Pasta	276,8	440,0	614,1	0,3	0,3	0,3
Potato	190,0	286,0	389,0	0,2	0,2	0,2
Vegitables	500,8	748,2	1019,5	0,5	0,6	0,6
Fruits, Berries and Nuts	684,6	1128,3	1528,0	0,7	0,8	0,9
Other Foodstuffs	14894,3	18952,0	24042,1	15,9	14,5	13,5

Source: State Statistics Committee of Ukraine

Structure of Household Expenditures*(annual average as calculated for one household*)*

	2000			2006			2007		
	All households	Including those residing in		All households towns	Including those residing in		All households towns	Including those residing in	
		towns	Rural area		towns	Rural area		towns	Rural area
All expenses, UAH	417,7	457,6	329,6	1282,6	1406,0	1010,2	1528,6	1675,1	1203,0
	%								
Total consumer expenditures	91,9	94,6	83,5	89,7	92,6	80,6	90,1	93,5	79,8
Foodstuffs (including eating out, alcohol, and tobacco items)	662,7	664,5	57,2	54,2	55,9	48,4	53,2	55,2	47,1
Non-foodstuffs and services	29,2	30,1	26,3	35,5	36,7	32,2	36,9	38,3	32,7
Financial transfers to relatives	1,8	1,5	2,6	3,0	2,5	4,6	3,2	2,6	4,9
Payment for housing, utilities and services	6,3	3,9	13,9	7,3	4,9	14,8	6,7	3,9	15,3

Source: State Statistics Committee of Ukraine

* Average household in 2007 is 2.6 individuals

Structure of Total Household Expenditure in 2007, by Total per capita Expenditure*(in average per month as calculated for one household)*

	All households	With average per capita expenditures per month, UAH										
		Less than 300,0	300,1–360,0	360,1–420,0	420,1–480,0	480,1–540,0	540,1–600,0	600,1–660,0	660,1–720,0	720,1–780,0	780,1–840,0	Over 840,0
All expenses, UAH	1528,6	857,9	1131,6	1305,6	1048,9	1094,9	1226	1361,2	1572,8	1581,8	1746,9	2237,5
	%											
Total consumer expenditures	90,1	92,3	90,5	92,2	91,2	90,5	90,8	90	91,2	91,9	91,4	88,7
Foodstuffs	53,2	62,5	57,7	57,5	58,0	57,6	56,5	54,4	55,6	55,1	53,3	48,1
Non-foodstuffs and services	36,9	29,8	32,8	34,7	33,2	32,9	34,3	35,6	35,6	36,8	38,1	40,6
Transfers to relatives	3,2	1,1	1,4	1,8	2,3	2,8	2,9	3,1	2,9	2,8	2,9	4,1
Other expenditures	6,7	6,6	8,1	6,0	6,5	6,7	6,3	6,9	5,9	5,3	5,7	7,2
	6,7	6,6	8,1	6,0	6,5	6,7	6,3	6,9	5,9	5,3	5,7	7,2
Other expenditures	90,1	92,3	90,5	92,2	91,2	90,5	90,8	90,0	91,2	91,9	91,4	88,7

Source: Households Income Survey, State Statistics Committee of Ukraine

Annual Foodstuffs Sales in Retail Trade (1000 Tones)

	1990	2000	2001	2005	2006	2007
Meat and products	2384	236	208	325	389	443
Butter	318	24	27	32	35	36
Vegetable oil	228	34	36	66	77	91
Cheese and soft cheese	147	16	18	42	51	63
Eggs, million	6883	953	1113	1341	1649	1791
Sugar	1802	118	100	129	130	155
Conditerey	997	155	164	225	252	275
Tea	24	3	3	7	9	12
Bear and products (in wheat floure equivalent)	7568	1493	1318	953	952	948
Potato	1372	73	83	78	76	91
Vegitables	2342	139	131	151	183	
Fruits and berries and nuts	449	70	63	148	203	230

Source: State Statistics Committee of Ukraine

**Foodstuffs Consumption by Household
(in average per month as calculated for one person, kg)**

	2000			2006			2007		
	All house holds	Including those residing in		All house holds	Including those residing in		All house holds	Including those residing in	
		towns	Rural area		towns	Rural area		towns	Rur al are a
Meat and products	3,3	3,3	3,2	4,7	5,0	3,8	5,1	5,5	4,1
Milk and dairy	17,1	15,4	20,5	22,3	21,8	23,3	22,1	21,7	22,8
Eggs (pieces)	18,0	20,0	16,0	19,0	20,0	17,0	20,0	21,0	18,0
Fish and seafood	1,3	1,4	1,1	1,9	2,0	1,7	1,9	2,0	1,7
Sugar	3,5	3,5	3,5	3,2	3,1	3,3	3,2	3,1	3,4
Oil and other vegetable fats	1,8	1,9	1,6	1,7	1,8	1,7	1,7	1,7	1,7
Potato	10,4	9,0	13,1	8,7	7,3	11,4	8,3	7,1	11,0
Vegetables and melons	9,5	9,7	9,3	9,4	9,5	9,3	8,7	8,6	8,9
Fruits, berries, nuts, grape	2,5	2,7	1,9	3,0	3,5	1,8	33,6	44,2	22,1
Bread and bakery	10,7	10,5	11,2	9,8	9,0	11,4	9,6	8,7	11,4

Source: Households Income Survey, State Statistics Committee of Ukraine

Foodstuffs Per Capita Consumption in 2007, (kg)

Product Groups	1990	2000	2005	2006	2007
Meat and products	68	33	39	42	46
Milk and Dairy	373	199	226	235	225
Eggs (pieces)	272	166	238	251	252
Fish and seafood	17,5	8,4	14,4	14,1	15,3
Sugar	50	37	38	40	40
Oil and other vegetable fats	11,6	9,4	13,5	13,6	14,3
Potato	131	135	136	134	130
Vegetables and melons	102	102	120	127	118
Fruits, berries, nuts, grape	47	29	37	35	42
Bread and bakery	141	125	124	120	116

Source: Households Income Survey, State Statistics Committee of Ukraine