

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Ukraine

Exporter Guide

Annual Report

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Report Highlights:

Demand for food products, including imported, served as an anchor for the Ukrainian economy in 2013. A general economic slowdown for the fifth consecutive quarter is likely to have a negative impact on food sales in 2014 despite slowly growing disposable incomes and low inflation. The trading environment remains complicated and non-transparent. Potential exporters are advised to secure an experienced Ukrainian partner with established contacts who is capable of navigating a myriad of obstacles facing imported agricultural products.

Post:

Kiev

SECTION I. MARKET OVERVIEW

Macroeconomic performance and other indicators

Lack of economic reforms and relatively low prices for major Ukrainian export commodities in 2013 led to some imbalances in Ukrainian economy that resulted in currency reserve loss and modest depreciation of the national currency. Processing and construction industries show almost ten percent decrease while agricultural production remained on the positive side. Despite all these negative trends in the economy households spending in first three quarters of 2013 grew by almost six percent providing some cushion for producers of food and fast-moving consumer goods. The majority of this growth comes from the increased budget transfers. Ukrainians continue to spend over half of their income on food and food industry's profit heavily depends on household incomes.

During 2013 Ukraine has conducted some reforms aimed at harmonization of Ukrainian legislation with the EU in anticipation of the political Association Agreement and Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union. In late November of 2013 Ukraine's leadership decided not to sign the agreement and to pursue a closer relationship with Russian Federation. The deal included gas price discount and \$15 billion stabilization loan. Despite this significant support program many analysts believe that Ukraine will not be able to restore a sustainable economy growth without major reforms in energy sector and state finance. Presidential election expected in early 2015 does not create a favorable political environment for such reforms in 2014 due to negative impact on disposable incomes. Although macroeconomic outlook for the remaining months of 2013 remains rather pessimistic a lot of analysts forecast limited growth in 2014 as major market in EU recover and price for export commodities (metals, chemicals and bulk agricultural products) recover.

Throughout 2013, the National Bank of Ukraine exercised very prudent financial policy in an attempt to stop devaluation of national currency which is viewed by GOU as an important political indicator of country's stability. This resulted in zero inflation (CPI of 0.0 percent as of November 2013), which is not very common for economies in transition and rather stable local currency exchange rate. However some devaluation followed political uncertainty in the end of 2013. Increased pressure on national currency increased mid-term financial risks leading to interest rates growth to 20-25 percent with a consequent increase in the share of bad loans. Exchange rate support also led to decrease of foreign currency reserves in 11 months of 2013 from \$24.5 billion to \$18.8 billion and investors' capital outflow. The situation in the economy was favorable for importers: an overvalued currency resulted in almost eight percent processed food products import growth. At the same time it increased potential payment risks.

Ukrainian trade in food products developed rapidly over the past decade. In the past this growth has been concentrated mostly in bulk commodities with recent switch to consumer oriented products as agricultural production in country recovered. Demand for processed products is driven by growing consumer incomes in major urban centers. Stable national currency during the past four years also decreased exchange risks.

The economic situation in the domestic market remains worrisome. The performance of the food sector is tied to performance of the rest of the economy and consumer incomes. Developments in 2012 have been turbulent: due to Parliamentary elections and the Euro-2012 soccer Championship the Government of Ukraine (GOU) maintained many expensive socially oriented programs and infrastructural projects. In 2013 many programs and construction projects expired. Most Ukrainian economists and international organization are in agreement on negative GDP growth in 2013. Together with social program reductions, this forecast gives little chance for consumer income growth and large scale recovery of the trade in food in 2014.

Real GDP Growth (Percent change from the Previous Year)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
+5.9	+9.2	+5.9	+9.4	+12.1	+2.7	+7.3	+7.9	+2.1	-15.0	+4.2	+5.2	+0.2	-1.2

Source: Stet Statistics Committee of Ukraine

* FAS/Kyiv Forecast

Suppliers of food products to Ukrainian retailers will continue to face payment problems limiting sales and assortment. The share of foreign food products will remain relatively small as well as the number of distributors ready to work in an extremely difficult environment. Despite technical barriers to trade importers of food products were able to expand their presence in 2013 mostly due to processed products import increases.

Share of Domestically Produced Food Product in Trade Turnover

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Food Products	90.9	89.3	88.2	88.2	88.4	88.2	87.2	86.3	87.0*

Source: Stet Statistics Committee of Ukraine

* FAS/Kyiv Forecast

In early 2014 Ukraine is expected to remain in a recession. Low global demand for steel and chemical products, lack of credit, and problems in the Ukrainian financial sector are still troubling. Some unsolved budget issues remain. The 2013 budget deficit is close to eightpercent. Ukraine has one of the riskiest sovereign ratings in the world. Agricultural production remained relatively stable. The 2013 crop was the best in history and provided stable base for domestic processing industry although agricultural producers remained unhappy due to lower commodity prices.

Industrial Output (Percent change from the Previous Year)

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
7.0	15.8	12.5	3.1	6.2	10.2	-3.1	-21.9	+11	+7.8	-1.8	-4.7

* FAS/Kyiv Forecast based on Jan-Nov 2013 data

The macroeconomic situation in the country is subject to constant changes. Trade risks somewhat increased last year, but market continues to grow driven by the growing disposable incomes. Exchange rates, banking sector indicators and GOU policies are changing constantly. Political instability also increased significantly as antigovernment protests started in Kyiv and some major cities in late November of 2013. An interested reader needs to refer to third party detailed analytical reports or to reports published by international organizations to get an understanding of the current situation and short term perspectives.

Ukraine posses a sizable shadow economy that developed due to tax pressures, frequently changing legislation, and law and contract enforcement challenges. Crisis developments resulted in a gradual growth of the share of the shadow economy over 2008-13. The tax reform of late 2010 did not improve the situation, especially for small and medium size enterprises. Experts estimate the size of the parallel shadow economy to be between 40 and 50 percent of the official economy. The country is ranked 144 out of 175 on the 2013 Transparency International Corruption Perception Index, scoring 25 point out of 100 (which is one point lower than in 2012).

The population of Ukraine was estimated to be 45.5 million, making it the second largest consumer market in Central and Eastern Europe after Russia. Ukraine's population is characterized by the increasing number of elderly and a quickly decreasing population (depopulation rate is among the highest in the world at 130,000 persons a year). The size of the official labor force is stable at 22 million. In 2013, the official unemployment rate floats around 8.0 percent, but experts point out that the actual number is higher due to unrecorded unemployment and underemployment, especially in rural areas.

Stabilized real incomes and demand drove the stabilization in the domestic consumer market.

Ukraine joined the World Trade Organization (WTO) on May 16, 2008, decreasing most agricultural import duties to previously negotiated levels. The country is also bound by international agreements on Technical Barriers to Trade and Sanitary and Phytosanitary measures. Ukraine's position on DCFTA with the EU is unclear after signing failure in the end of 2013. However the GOU stated its adherence to previously announced course aimed at cooperation with the EU. Ukraine is also Commonwealth of Independent States (CIS) FTA member, although this agreement contains multiple exemptions.

Because of relatively low incomes and unfriendly trade environment, the sale of most U.S. food products available on the Ukrainian market is limited. Most U.S. products are of premium quality and value added and found in some niche markets frequented by wealthy consumers (1.5-1.8 percent of the Ukrainian population) and the growing middle class (13-17 percent of the population). Concomitantly, the rapid development of the Ukrainian food processing industry is opening the door for U.S. ingredient suppliers.

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

Retail Trade

Ukrainian retail trade in food products developed rapidly over the past decade. This growth had been driven by a strong growth in consumers' incomes. Some changes in the expansion pattern were observed in recent years with more emphasis on small retail formats, shopping malls development and expansion of chains from major urban centers into the regions.

The 2008 crisis had significant negative impact on retail development. The industry resumed careful growth only in 2011-12. Owners start to open new stores and invested into rebranding of the existing ones. Chains adjusted their expansion plans to changed behavior of the consumers and relied heavily on smaller formats to recapture the market share. Small mini markets and "shop near home" became predominate formats. Companies that emphasized low prices and relied on smaller stores were able to strengthen their positions in the country.

Even big companies that used to operate only large stores chose to scale down and concentrate on "shop near home" type outlets. Many preferred to maintain the chain's brand to keep loyal consumers, but in the new format. Retailers believe that smaller stores allow for retail industry growth in turbulent post crisis market environment. Small stores minimize the need for additional investments and allow retailers to cover areas where conventional supermarket construction is unjustified or excessively risky.

In recent years chains invested significant resources into private label and their own import programs. In some cases exporters are better off contacting import departments of major chains directly rather than dealing with independent importers. However as chains gain market weight and their contract terms became more restrictive use of middlemen can be justified especially on the initial stage. Import departments or independent importers also take care of custom formalities. Ukraine's importing system remains rather cumbersome, beside many importers complain about nontransparent import procedures.

Retail sector trends are described in bigger details in the third section the report.

Foreign Trade

Upon accession to the WTO Ukraine decreased its import duties to reasonable levels. However some importers complain about unfair custom valuation practices that lead to higher import duties and value added tax charges. Some existing veterinary-sanitary regulations have complicated trade in U.S. ready-to-eat products, food ingredients, fish, poultry, red meats, animal genetics, and live animals. All these non-tariff barriers to trade add to high distribution and shipping costs. Custom valuation of the imported products remains to be the biggest problem for U.S. exporters.

Because Ukraine signed FTAs with Macedonia, Russia and other countries within the Commonwealth of Independent States (CIS), food and some agricultural products from these countries have price advantages over imported products from the United States. It must be noted that many of these FTAs contain multiple exceptions (especially for agricultural products) that decrease their role. A finalized FTA with the EU could have much bigger impact as many EU food products are in direct competition with the U.S. Despite the U.S. capturing a relatively small share of the trade, in 2010 U.S. agricultural exports reached \$245 million. The opening of the Ukrainian red meat market in the end of 2008 and WTO accession further facilitated trade growth for U.S. products. (Note: These are official numbers that won't capture products imported through the shadow economy.)

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

Advantages and Challenges Facing U.S. Products

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

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

- U.S. companies have little reliable information about the country, current market opportunities and potential business partners.
- Minimum quantities offered for export are often too large for the Ukrainian market.

- A perception that persists among Ukrainian importers is that landed costs of U.S. products are higher relative to European products due to higher transportation costs.
- The perception that U.S. exporters are simply too far away to follow market trends and service the Ukrainian market.

SECTION II. EXPORTER BUSINESS TIPS

Local Business Practices and Customs

Entry Strategy

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

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

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

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

U.S. companies should approach potential Ukrainian partners with due diligence. While information on Ukrainian companies has improved, there is still a significant dearth of background data and credit histories on potential Ukrainian

distributors. This presents the greatest obstacle to finding reliable, competent distributors. In order to obtain a due diligence report on a potential Ukrainian partner, a U.S. company is advised to contact either a law firm or an internationally accredited financial service company. It is advised that all U.S. companies consider legal counsel before and while doing business in Ukraine. Ukrainian laws and regulations are vague and open to interpretation. U.S. businesses are advised that establishing a partnership with a Ukrainian company is a challenge that is beyond the control of the U.S. partner and his legal advisors.

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

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

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

General Consumer Tastes and Preferences

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

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

Biotech products have a negative public perception in Ukraine and the government has imposed compulsory labeling. There are no registered GM plant varieties for human consumption and there are only intentions to have them registered for animal feed. Ukrainian legislation on biotechnology in general is in development.

With average per capita income still quite low, Ukrainians spend approximately 56-57 percent of their incomes on foodstuffs. Prepared home meals are preferred over dining out. Women account for 49 percent of the total work force of 20.6 million people and contribute to the increased demand for meals consumed away from home, easy to cook and ready-to-eat products. The market trend for frozen and convenience food is relatively new in Ukraine, but with a large proportion of two-income families and growing incomes of city dwellers this market segment is expanding very rapidly.

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

Food Standards and Regulations

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

Ukraine possesses a complicated and costly food safety system inherited from the Soviet Union. Controls are implemented by various state agencies that often have overlapping functions. In late 2010 the Government of Ukraine (GOU) started a major reform of the regulatory system aimed at reducing the number of controlling bodies and clear separation of their authorities. Although GOU intended to finish most of the transformation by the end of 2011, the process slowed down and very limited reforms were conducted in 2011/12. The authority scopes of both new and old agencies in transformation are provided in the report where possible. Due to ongoing reform these scopes are changing over time. So far the reform has not led to simplification of food import regime. The reader is encouraged to contact FAS/Kyiv should questions arise.

The following GOU agencies are involved in assuring the safety of domestically produced and imported food products, and animal and plant health issues:

- State Epidemiological Service (SES) of the Ministry of Health Care of Ukraine (MHCU) establishes food safety standards and is responsible for all aspects of food safety;
- State Veterinary and Phytosanitary Service (SVPS) is responsible for animal health, safety and wholesomeness of meat, seafood, other products of animal origin and live animals (State Phytosanitary Inspection Service of the Ministry of Agricultural Policy and Food of Ukraine has not yet joined the SVPS as intended by regulatory reform. It functions separately and is responsible for plant health issues);
- Agricultural Inspection Service (AIS) of the Ministry of Agricultural Policy and Food of Ukraine (MAPFU) is responsible for plant varieties;
- State Inspection for Consumer Rights Protection is responsible for compliance of food products with Technical Requirements and safety norms (listed in outdated State Standards which are voluntary for non-safety parts) if they are not controlled by other agencies and not covered by the new Technical Requirements.
- State Ecological Inspection Service (SEIS) of the Ministry of Ministry of Ecology and Natural Resources of Ukraine (MENRU) is responsible for radiological and environmental control.

Imported food products must meet the same requirements as domestically produced foods. While enforcement of food safety norms has been generally effective, outdated nutritional norms have not been rigorously enforced. All food products sold in Ukraine must have Ukrainian language labels attached to the package that contain the following information:

- 1) Name of food product;
- 2) Nominal quantity of food product (weight or volume in metric system measurement);

- 3) List of all ingredients found in the food product, including other food products and food additives used;
- 4) Nutritive values and energy;
- 5) Expiry date, or the date of production with indicated shelf life;
- 6) Storage conditions;
- 7) Name, country, address of producer, packer, exporter and importer of the product;
- 8) Terms of use (if any);
- 9) Presence or absence of genetically modified organisms (GMO) - please note text explanation below;
- 10) Consumption of food product warnings for certain consumer categories (children, pregnant, senior people, athletes etc.)
- 11) Consumption warning for food products by certain consumer categories (children, pregnant, elderly, athletes, etc.);

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

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

Food product labeling legislation continues to require GE content indicated on food products that are sold to Ukrainian consumers. The Government of Ukraine defines GE presence in a product according to the GOU [Resolution #661 \(in Ukrainian\)](#). At present, any food product that contains more than 0.9 percent GE content in a single package's total weight or was made with the use of GE products, such food product has to be labeled "Contains GMO."

The list of products subject to compulsory certification is provided in a separate [GAIN Report](#). The list is not extensive and includes mostly seafood, canned product for children consumption, wine and tobacco products. In its design, current Ukrainian legislation in many instances mimics EU system, but remains in transition from Soviet-type scheme to a modern one. This transition adds to uncertainty that agricultural producer or importer face. The system is based on both compulsory (Technical Regulation a.k.a. Technical Regulations) and voluntary (State Standard) regulations.

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

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

General Import and Inspection Procedures

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

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

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

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

Ukrainian is the only official language recognized in Ukraine. All documents must be bilingual, submitted in Ukrainian or be accompanied by an official translation. The Law "On Regional Languages" was adopted in 2012. The Law allows for other languages on the label in addition to the Ukrainian one.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Competition

For the past ten years, Ukraine has been a net exporter of agricultural and food products (HTS 1-24 groups). In 2013, total exports of agricultural products from Ukraine are expected to exceed \$16 billion dollars (a 6-7 percent drop from 2012), exceeding agricultural imports (\$6 billion dollars).

Ukraine's Imports of Consumer Oriented Agric. (January - September), Million USD

Commo- dity	Description	United States Dollars			% Share			% Change 2013/2012
		2011	2012	2013	2011	2012	2013	

080300	Bananas And Plantains, Fresh Or Dried	110.0	206.4	230.8	5.05	7.33	7.61	11.79
210690	Food Preparations Nesoi	165.9	182.3	215.6	7.63	6.47	7.11	18.26
020329	Meat Of Swine, Nesoi, Frozen	90.0	224.5	199.1	4.14	7.97	6.57	-11.29
210111	Coffee Extracts, Essences Etc. & Prep Therefrom	176.1	164.2	155.2	8.09	5.83	5.12	-5.5
080510	Oranges, Fresh	63.0	71.0	107.2	2.9	2.52	3.53	51.02
230910	Dog And Cat Food, Put Up For Retail Sale	66.8	74.4	83.3	3.07	2.64	2.75	11.89
080520	Mandarins (Inc Tanger Etc) & Citrus Hybr Fr Or Dri	55.8	49.6	82.0	2.57	1.76	2.7	65.2
090121	Coffee, Roasted, Not Decaffeinated	75.9	73.2	77.4	3.49	2.6	2.55	5.73
180690	Cocoa Preparations, Not In Bulk Form, Nesoi	49.4	50.5	75.5	2.27	1.79	2.49	49.52
070200	Tomatoes, Fresh Or Chilled	38.7	57.8	69.0	1.78	2.05	2.28	19.44
080810	Apples, Fresh	26.0	58.5	66.5	1.2	2.07	2.19	13.69
220421	Wine, Fr Grape Nesoi & Gr Must W Alc, Nov 2 Liters	50.7	55.6	62.5	2.33	1.97	2.06	12.33
020714	Chicken Cuts And Edible Offal (Inc Livers), Frozen	32.6	99.5	57.6	1.5	3.53	1.9	-42.1
210390	Sauces Etc. Mixed Condiments And Seasonings Nesoi	47.8	47.7	54.3	2.2	1.69	1.79	13.89
080550	Lemons And Limes, Fresh Or Dried	29.6	44.9	50.2	1.36	1.59	1.66	11.74
	Others	1097.7	1357.0	1446.5	0	0	0	6.59
	Total	2176.1	2817.1	3032.6	100	100	100	7.65

Source: State Statistics Committee of Ukraine

The development of the food industry in Ukraine has led to a significant increase in the use of raw materials and additives for foodstuff production and comprises the majority of Ukrainian imports.

In 2007-2013, imports of the following commodities experienced the highest rates of growth:

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

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

Food products imported from EU and CIS countries are now the major competitors for U.S. commodities in Ukraine and will continue to be in the foreseeable future. Below is a list of the top ten U.S. export commodities experiencing the highest

import growth rate in Ukraine (for 2007-2013 with turnover over \$5 million):

- Meat (Poultry used to be one of the most popular items, but domestic production is growing fast)
- Seeds for Planting (Corn Hybrids)
- Miscellaneous food
- Edible Fruits and Nuts
- Preserved Food (mostly Juice Concentrates)
- Tobacco
- Pet Food
- Fish and Seafood (Whiting and Hake)

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

Retail Food Sector

Due to the quickly growing number of super- and hypermarkets in 2001-2013, experts estimate their market share at 45-47 percent, and it will continue to grow in the future. Traditional retailers in big cities are losing their clientele due to new and improved services that are provided by big retailers. Open-air markets and kiosks cannot compete due to low quality products (this is a major channel for uncertified and counterfeit goods), while traditional grocery stores cannot offer a wide assortment of products at low prices. Supermarkets are not completely driving out open-air wholesale markets and Soviet-type grocery stores, but forcing them to modernize equipment and marketing techniques.

Supermarkets, Hypermarkets

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

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

The average floor space of a Ukrainian supermarket grew from 822 square meters in 2005 to 914 square meters in 2007 and 1500 square meters in 2012 (FAS-Kyiv Estimate). 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. 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 30–50,000 items. 80-90 percent 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 around-the-clock.

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

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

Kiosks and Gas Marts

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

The number of modern gas stations continues to grow rapidly in Ukraine. Approximately 10-15 percent 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 percent of all food stores. The service-store network is under development and is not viewed as a major revenue source by gas station managers. The developing network has good prospects and may increase its share of retail sales.

Chain Convenience Stores and Self-service Groceries

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

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

Traditional Outlets: Independent Grocery Stores and Open-Air Markets

Soviet-style stores with behind-the-counter sales (traditional groceries) are quite common in Ukraine. Some of these groceries are situated in central districts selling food products to office employees during the workweek and to a small number of urbanites. These stores have often been taken over by chain convenience store companies and converted into modern self-service convenience stores. Other traditional grocery stores survived in suburban communities in large cities. These stores are likely to leave the market due to fierce competition with supermarkets and modern convenience stores. They are losing clientele due to their limited product line, higher prices, poor customer service, and unprofessional vendors. In order to survive, many offer round-the-clock operations and lease some floor space to sellers of industrial goods (FMCG products) and services (dry-cleaning). 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 may become outlets for less expensive food products, manufactured abroad with a long shelf life: alcohol drinks, assorted snacks, confectionery products, meat goods, canned goods, goods for elderly people. The overwhelming majority of these stores (except small ones with 150-200 square meter floor space) procure products through wholesale companies. Smaller ones buy products in Cash&Carry stores or from large wholesale open-air markets.

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

HRI Food Service

The HRI sector in Ukraine remains small, but is developing quite rapidly. In 2012, the number of restaurants, cafes, bars and other HRI institutions in Ukraine exceeded 30,000. New fast food outlets and restaurants with international-style cuisines have begun to alter the structure of the food service sector. The market niche for expensive and elite restaurants is saturated, so the lower cost mass market is developing. Existing restaurants are divided into three categories: fast food, canteens and cafés, mid-level restaurants, and restaurants with “high-quality cuisine.” The majority of outlets belong to the first group. With over 21 million visitors in 2011, tourists have become the major driving force behind the success of the HRI sector and the introduction of new food products to the Ukrainian market. In 2012 the total number of tourists is expected to be higher due to this summer’s Euro-2012 soccer Championship.

In addition to fast food establishments that offer pizzas, hot dogs and hamburgers, outlets of various ethnic cuisines, such as Mexican, Chinese, Vietnamese, Japanese, Italian, Indian and others, have entered the food service industry. However, the majority of customers prefer family-style menus featuring traditional Ukrainian food. In addition to McDonald’s (with 77 restaurants in 22 cities of Ukraine), there are other fast-food restaurant chains like Mr. Smak, “Pizza Chelentano” and “Kartoplyana khata” (Potato house), “Shvydko”, etc. In 2012 Yum! Brands opened the first KFC restaurant.

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

prospect areas for new restaurants, but the middle class is currently at the mercy of the economic slowdown.

Food Processing Sector

The food-processing sector in Ukraine has developed rapidly in the past ten years. The food industry's share in manufacturing is almost 20 percent. In 2013, the industry's total output of exceeded \$14 billion dollars (FAS/Kyiv estimates). Over 20,000 enterprises operate in the food processing sector of Ukraine. The fastest growth rate is found in fruit and vegetable processing, edible oils production, pastry and biscuits, baby food, and alcoholic beverages production.

Imports of food ingredients are estimated at \$1.8 billion for 2013 (including products for further re-packing). Major imported products for the processing industries included poultry, fish, palm oil, cocoa products, juice concentrates, spices and seasonings, vegetables, additives, tobacco and others.

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

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

SECTION IV. BEST HIGH VALUE PRODUCT PROSPECTS

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

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

Products with Best Sales Prospects in Ukraine

Category A: Products Present on the Market With Good Sales Potential (9 months data)

Product	2012 Market volume	2013 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
Beef	8 ths.	11 ths.	No	10-12 percent	Consumer	Insignificant

	tons	tons	change		unawareness of U.S. high quality beef; Sizable domestic production, Complicated import procedures for chilled product.	specialized beef production; Constantly growing beef prices; Niche markets for meat delicacies (steak, etc.) and meat offal; Fast HRI development.
Pork	171 ths. tons	128 ths. tons	25 percent Decline	10-12 percent	Competition from Brazilian, German and Polish pork, complicated import procedures.	Shortage of pork in the country; high prices; Demand for stable deliveries of both cheap and high quality product.
Fish and Seafood	292 ths. tons	315 ths. Tons	8 percent	0 – 5 percent for all frozen fish; 10 percent for prepared fish, live fish, Mackerel, Trout, some Crustaceous, Anchovy, Salmon and Lobsters.	Regular deliveries of high quality product from Norway; Shortage of suitable equipment at retail trade outlets; Deficit of proper storage facilities with below –20C temperature.	Growing demand for higher quality seafood from consumers; Significant demand from supermarkets and HRI sector.
Snack Food (Excluding Nuts)	42 ths. tons	53 ths. tons	27 percent	From 0 percent to 20 percent	Sharp competition with CIS countries and Turkey. Desire of packers to save on raw stock, procuring low quality stock from Iran, Uzbekistan and Tajikistan	Intensive development of confectionery industry and start of retail sales of rare dried fruits. High quality of U.S. product; Development of premium-class confectionery products

** All imported products are subject to 20 percent VAT tax.*

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

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ATTACHMENTS

Table A. Sales of Major Food Product in Ukraine in 2010-12

Food Product	Volume	Sales		
		2010	2011	2012

Meat, poultry and fresh frozen	1000 T	6383	7153	9165
Meat, smoked and salted meats	"	6560	7603	8564
Canned, prepared meat products	"	902	1117	1190
including semi-finished meat	"	47	35	37
Fish and seafood	"	3242	3699	4411
Canned, ready to eat fish products	"	1273	1547	1986
including semi-finished	"	5349	6157	7471
Ice cream	"	745	940	1160
Hard cheese, foft and melted cheese	"	3192	3922	4948
Butter	"	1397	1700	1923
Eggs and egg products	Million pcs.	1309	1563	1981
Oils and Fats	1000 T	1452	2002	2257
Margarine	"	333	342	344
Sugar	"	1222	1374	1128
Confectionery sugar	"	8322	10181	11809
Flour	"	535	638	707
Bakery products (except confectionery)	"	2960	3501	3914
Groats and Beans	"	1327	1663	1773
Noodles	"	1035	1323	1318
Potatoes	"	536	702	722
Vegetable	"	2196	2836	3109
Fruits, berries, grapes, nuts	"	3567	4550	5648
Watermelons and Melons	"	1124	1303	1489
Canned vegetables	"	346	409	441
Canned fruit and juice	"	19502	23408	25995
Vodka and other spirits products	1000 decalitres	7573	9350	9940
Alcopops	decalitres	858	1026	1224
Wines	"	3186	3578	3877
Brandy	"	2157	2671	2890
Sparkling wine (champagne)	"	1285	1500	1686
Beer	"	4443	5283	6378
Tea	1000 tones	1285	1469	1629
Coffee	"	2022	2513	2936
Sault	"	75	89	107
Soft drinks	decalitres	3359	3769	4534
Mineral water	"	1805	2070	2664
Tobacco	million pcs	12299	17522	26506
Other food Products		5674	7805	8234
Total Food Products		101375	124905	150100
Food Products in Stores and Supermarkets		9509	11369	12559

Source: State Statistics Committee of Ukraine

Table B. Ukraine's Agricultural and Food Imports from the U.S. (January - September), Million USD

Commodity	Description	United States Dollars			% Share			% Change 2013/2012
		2011	2012	2013	2011	2012	2013	
	Total Imports	54.5	101.7	97.8	100	100	100	-3.82
210690	Food Preparations Nesoi	10.5	14.8	16.1	19.2	14.6	16.5	8.9
020329	Meat Of Swine, Nesoi, Frozen	2.3	1.6	14.6	4.3	1.59	14.9	802.06

020714	Chicken Cuts And Edible Offal (Inc Livers), Frozen	3.8	38.5	13.0	7	37.8	13.3	-66.17
040700	Birds' Eggs, In The Shell, Fresh, Preserv Or Cookd	8.6	10.7	9.6	15.8	10.5	9.8	-10.12
080211	Almonds, Fresh Or Dried, In Shell	4.2	7.4	8.6	7.68	7.27	8.83	16.75
350510	Dextrins And Other Modified Starches	5.6	5.9	5.3	10.4	5.77	5.4	-10.07
020622	Livers Of Bovine Animals, Edible, Frozen	1.5	1.3	5.1	2.82	1.32	5.18	277.55
080212	Almonds, Fresh Or Dried, Shelled	1.2	1.7	3.6	2.22	1.69	3.71	110.64
020322	Meat, Swine, Hams, Shoulders Etc, Bone In, Frozen	1.4	1.5	2.8	2.49	1.44	2.91	93.67
040510	Butter	0.0	0.0	2.4	0	0	2.42	n/a
081320	Prunes, Dried	0.3	0.4	2.3	0.51	0.37	2.33	507.38
230910	Dog And Cat Food, Put Up For Retail Sale	1.6	1.5	2.1	2.91	1.45	2.15	42.44
080620	Grapes, Dried (Including Raisins)	2.1	1.6	1.8	3.79	1.54	1.84	14.5
200819	Nuts (Exc Peanuts) And Seeds, Prepared Etc. Nesoi	0.3	0.6	1.5	0.57	0.64	1.57	137.06
071290	Vegetables Nesoi & Mixtures, Dried, No Furth Prep	0.6	1.0	1.1	1.19	0.96	1.15	15.44
	Others	10.4	13.3	7.8	19.2	13.1	7.99	-40.95

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

TABLE C. TOP 15 SUPPLIERS OF CONSUMER FOODS AND EDIBLE FISHERY PRODUCTS to Ukraine (January-September)

Partner Country	United States Dollars			% Share			% Change
	2011	2012	2013	2011	2012	2013	2013/2012
World	2176	2817	3033	100.00	100.00	100.00	7.65
Russia	310	297	368	14.24	10.54	12.14	23.96
Germany	220	295	290	10.13	10.46	9.55	- 1.73
Poland	176	234	246	8.09	8.31	8.11	5.03
Turkey	141	183	244	6.47	6.50	8.03	33.15
Ecuador	121	210	230	5.54	7.46	7.59	9.55
Brazil	107	260	191	4.93	9.23	6.31	- 26.42
Netherlands	130	151	144	5.98	5.35	4.74	- 4.76
Italy	103	128	133	4.74	4.55	4.39	3.90
Spain	80	114	113	3.68	4.06	3.73	- 1.07
United States	54	102	98	2.50	3.61	3.22	- 3.82
France	69	72	89	3.16	2.57	2.93	22.61
Egypt	50	61	84	2.30	2.16	2.78	38.56
Hungary	47	62	56	2.17	2.20	1.85	- 9.56
Belgium	35	42	49	1.63	1.49	1.62	17.03
Belarus	18	22	41	0.84	0.80	1.35	82.07
Others	513	583	657	23.55	20.71	21.63	12.58

Source: State Statistic Committee of Ukraine/GTI