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Voluntary Public

Date: 12/19/2017

GAIN Report Number: UP1730

Ukraine

Post: Kiev

Retail Foods Report

Report Categories:

Retail Foods

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Report Highlights:

The Ukrainian food retail industry is growing slowly in the post-crisis period. The share of unorganized trade remains high. Political and economic turbulences harshly impacted middle-income consumers in recent years, pushing food sales into the lower-price segments. Although insignificant, the top market segment did not suffer considerably. Chains were optimizing product selection in different locations and focusing on smaller store formats. Larger chains continued expansion by both opening new stores and remodeling stores acquired from smaller chains going out of business. Two major retail chains are now responsible for almost 20 percent of the market. The share of imported consumer-ready food products remains insignificant due to low incomes. Products from the EU dominate the market due to geographic proximity and consumer preferences.

Executive Summary

The Ukrainian retail industry is slowly recovering from the political turmoil of 2013-15. Economic crisis followed by severe currency devaluation undermined disposable incomes, changing consumer preferences and reshaping Ukrainian retail. The crisis resulted in a significant demand shift toward cheaper food products, a decrease in general food consumption, and a reduction in the share of imported food products. The retail industry stabilized in 2016 with some signs of recovery in 2017. This trend for increased sales is expected to continue in 2018 and beyond.

The overall share of imported food products in Ukrainian retail reached 15.2 percent in 2016. This is lower than pre-crisis levels, but almost twice that of 10 years ago. Despite economic uncertainty and decreased incomes, Ukrainian consumers were not ready to lower consumption of products they became accustomed to in recent years. However, demand for imported products became concentrated in the lower-price segment and for top-quality luxurious food products. The share of mid-range imported products eroded significantly.

Retail industry development in 2014-17 was limited due to high investment risks and political uncertainty. Nonetheless, the number of chain retail outlets continued to grow reaching 4,300 stores of different formats countrywide by the middle of 2017. Currency swings in 2015 led to massive losses and bankruptcies of a number of importers and some retail outlets. The number of supermarkets contracted in 2014-15 and rebounded in 2016. Many traditional retail groceries that dominated in the 1990's and 2000's were unable to withstand the trade volume drop and could not stay afloat. The number of open-air markets decreased most significantly, although the number of small traditional grocery stores and kiosks also contracted. Super-large retail formats have proven to be vulnerable to external shocks as well. The number of hypermarkets decreased by over one third between 2013 and 2016.

Despite turbulences, Ukrainian retailers are coming out of the economic crisis of recent years stronger than before. Food retail industry leaders have improved their positions and increased market share compared to the rest of the market. Although the number of retail food chains decreased, the competition for consumer demand remains fierce. Discounter-like chains have won larger market share as price has become a more significant driver of demand.

Imports of U.S. food products will grow in 2017, and beyond, with emphasis on cheaper market segments and products that had already established market share prior to the crisis. Low disposable incomes will remain the major limiting factor for import expansion.

SECTION I. MARKET SUMMARY

Retail Format Definitions

Retail outlet definitions are based on the State Statistics Service of Ukraine classification and industry standards. However, some Ukrainian chains use different methods for self-classification and format assessment. Due to FAS/Kyiv's inability to evaluate all of them, report tables contain store formats and numbers as declared by operators.

Small Grocery Store – A retail outlet of less than 120 m² floor space. It may have either a self-service layout or be “traditional” with over the counter trade. A typical grocery store sells a limited line of high-convenience items including some perishable foods.

Convenience Store – a self-service store of 120-399 m² floor space. These stores are often located in bedroom communities and within proximity to urban transport hubs. The majority of convenience stores are operated by large retail companies which often also run chains of other formats. Convenience stores sell a line of dry groceries, canned goods or nonfood items as well as perishable items.

Supermarket – Any self-service grocery store with floor space of 400-2499 m² offering a full line of groceries, meat, and produce.

Hypermarket - A very large food and general merchandise store with over 2500 m² of selling space. The food-to-general merchandise sales ratio is close to 60/40.

Gas Mart – a small outlet located at a gas station offering a limited number of dry groceries. Although snacks generate the majority of sales, many have cold boxes offering sandwiches, ice-cream and similar convenience foods.

Kiosk – a small roofed stall ranging from just 1 to 30m² of selling space. Most of them are located at open-air markets, bus stops and underground pedestrian passages in the city. Kiosks usually specialize in one product grouping, ranging from tobacco products to frozen foods, bread, and even a seller's proprietary product line.

Open Air Market – a plot of land with open-air or sheltered tables, stalls and kiosks. Similarly to supermarkets, open air markets are full-line, but low technology point of sales. Products are often sold without refrigeration or are defrosted. Most open air markets have limited working hours and are typically used for sales of locally produced products.

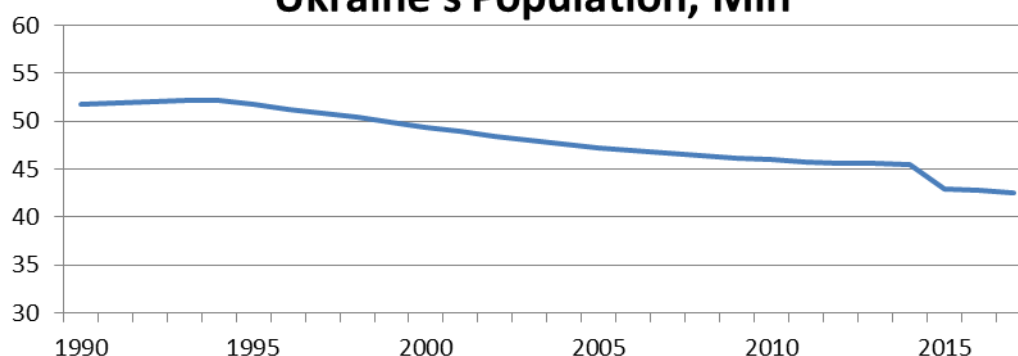
Macroeconomic performance and other indicators

After a robust 8-year expansion beginning in 2000 that saw real GDP expand 75 percent, Ukraine's economy experienced a sharp slowdown in late 2008, which continued through 2009. After relative economic stability in 2010-2013, real GDP fell by 6.8 percent in 2014, stemming from economic and political instability inside the country as well as Russian military aggression in eastern Ukraine and its occupation of the Crimean Peninsula. After a 9.9 percent real GDP drop in 2015, Ukraine exhibited modest 1.0-2.0 percent growth rates in 2016-2017. It will take a few more years before the Ukrainian economy rebounds to pre-crisis performance and consumption levels. Many tables and graphs in this report exhibit the sharp downward trends in 2014-16.

In March 2014, Ukraine signed the [EU-Ukraine Association Agreement](#), solidifying the country's intention to integrate into the European Community and bring SPS laws and technical regulations closer to European standards to support trade with the EU and attract investment. A crucial economic component of the Association Agreement was the Deep and Comprehensive Free Trade Area ([DCFTA](#)). According to the EU Commission the Agreement will eliminate 99.1% and 98.1% of tariffs for Ukraine and the Union, respectively. However a significant portion of trade in agricultural and food products remains subject to tariff rate quotas (TRQs) maintained by both the EU and its member states, and Ukraine. TRQs restrict trade in sensitive agricultural products. Ukraine also agreed to implement a major legislative approximation program aimed at bringing it in compliance with EU regulations. Adoption of certain EU technical regulations and SPS norms may result in market access complications for U.S. food product suppliers.

The population of Ukraine is in decline. The United Nations expects Ukraine's population to contract by 9 million (an estimated 28% total decrease) by 2050. Annexation of the Crimean Peninsula by Russia in 2013 resulted in another 1.9 million population decrease.

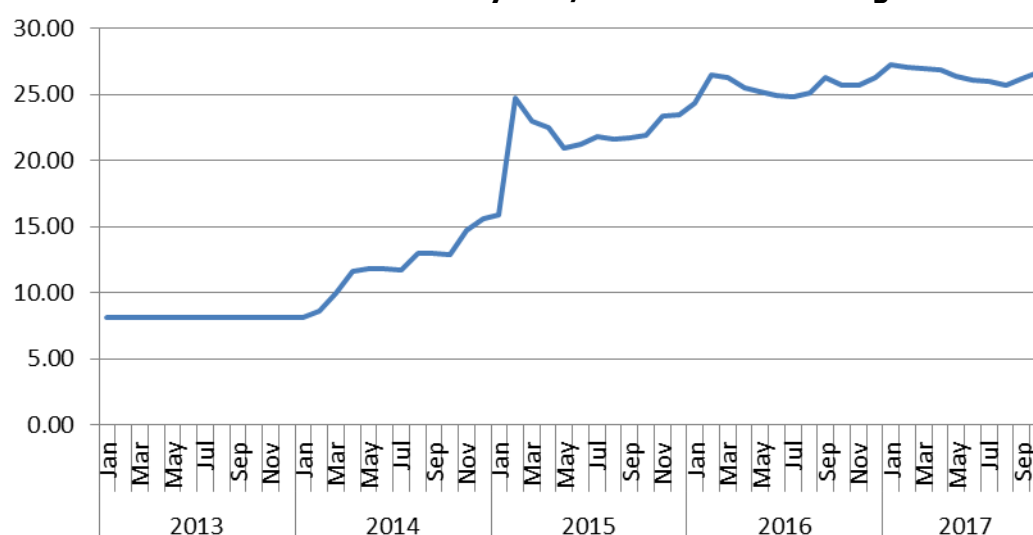
Ukraine's Population, Mln



Source: State Statistics Service of Ukraine
 Crimea is excluded from 2014-16 indicators.

Significant political and economic shocks undermined the Ukrainian currency – Hryvnia (UAH) – stability in 2014-15, resulting in abrupt devaluation. The exchange rate was stabilized in 2016-17 through multiple National Bank of Ukraine measures. Devaluation significantly complicated imports as currency exchange risks increased.

Ukrainian Hryvna / U.S. Dollar Exchange Rate

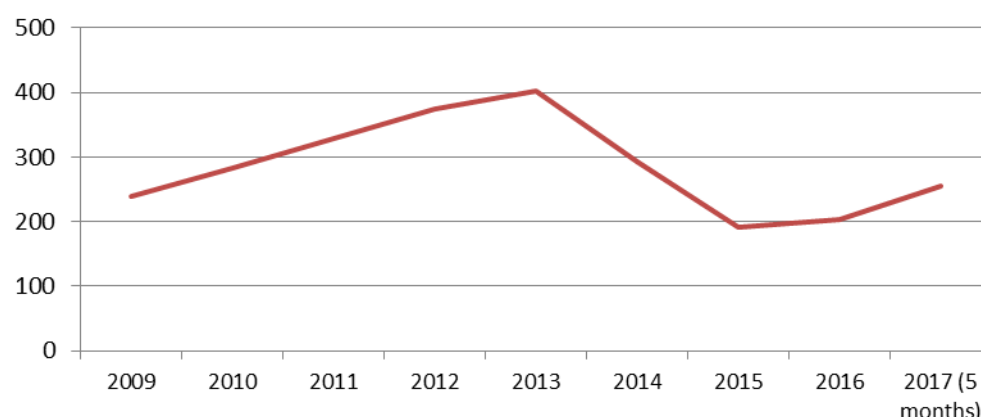


* Interbank currency exchange rate were used
 Source: National Bank of Ukraine

Stabilization in the exchange rate is welcomed by local food importers, as it enables a degree of financial and contract stability that has been absent in recent years. Imports of food products stabilized in 2016.

Currency devaluation led to an average salary decrease, which was not offset by a corresponding nominal salary growth. Salaries partially rebounded after macro-economic stabilization.

USD Average Official Monthly Salary in Ukraine, USD



Source: State Statistics Service of Ukraine, FAS/Kyiv calculations

The decrease in disposable incomes was a major impediment for imports of U.S. products. Ukrainians continue to spend over half of their income on food. Disposable income is the overwhelming determinant of demand for food imports, especially for higher-priced U.S. products. Without a meaningful recovery in household disposable incomes, boosting exports will face challenges. Disposable income stabilized and showed a very small amount of growth in 2016, but not enough to make up for prior losses. It will take several more years at current levels of economic growth before former levels of income are regained.

Ukraine will remain a market for many food products that are not grown in the country. The list is extensive and includes tree nuts, fish, seafood, tobacco, cocoa, tea, coffee, spices, certain alcoholic beverages, fresh and canned fruits and many others. Some of these products can be considered staple foods as they are consumed on a daily basis by Ukrainians. Demand for many of those products is less subject to disposable income fluctuations (i.e., they have inelastic demand).

Developments

Historic Retail Development Overview

The Ukrainian retail industry started a rapid expansion in the early 2000's following an economic growth cycle. As real incomes rose, Ukrainian consumers were ready to pay for additional services, product quality and availability. With the exception of foreign chains that entered the Ukrainian market during that time period, none of Ukraine's retailers had experience in development of advanced retail chains. Most market players were learning by doing. Foreign competition remained limited as the Ukrainian market was perceived as a high risk one, which limited market entry. The majority of successful Ukrainian retailers used western chains' strategies and concepts for their own development. However, the western strategy needed adjustment to local conditions and consumer preferences. For example, Ukrainian consumers have yet to embrace mega-discounter or club-formats despite the multiple economic disturbances and shift toward cheaper products in recent years.

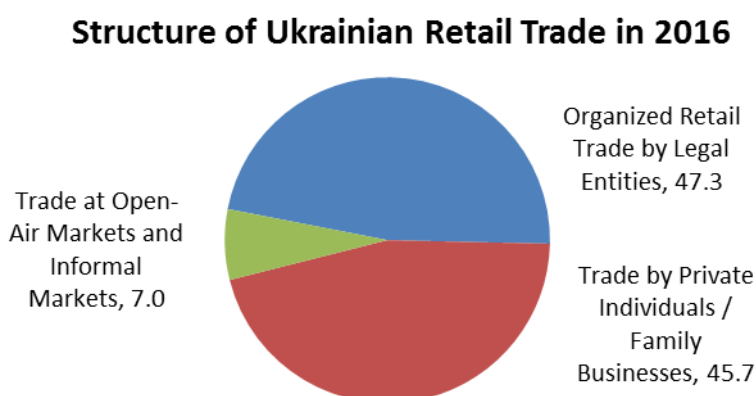
After rapid expansion in late 2000's, Ukraine's retail industry matured through business concentration and two major economic crises: in 2009 and in 2014-15. Their growth strategy changed from rapid expansion of outlets to utilization of available market niches and fine-tuning of existing trade formats. Many domestic retailers split their businesses into conventional

supermarkets, convenience stores and, in a few cases, soft discounter formats. Foreign chains preferred to maintain parent-company defined formats (Metro and Billa) while some developed successful business models specific to Ukraine that are somewhat different from their standard format in other countries (Auchan).

During the crisis and post-crisis periods, the number of large retail outlets decreased, with industry developing smaller and more cost-efficient outlets. Retailers concentrate on improving existing locations, turnover increases, and precise tailoring of product selection to fit changing demand. In recent years, retailers have not hesitated to close specific locations after attempts to make them profitable fail. This current development strategy is in sharp contrast with that of the initial expansion period in the early 2000s.

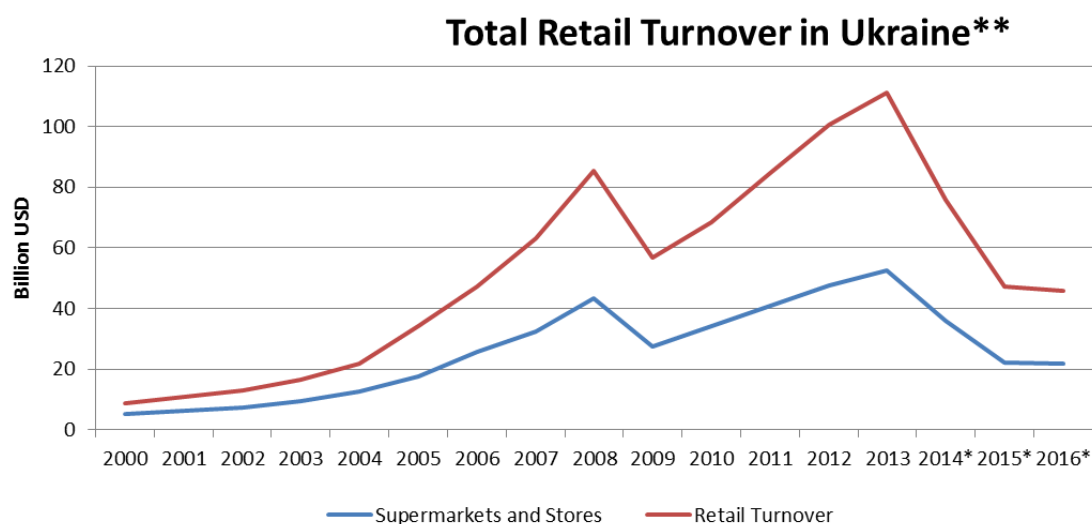
General Retail Trends

The share of organized retail trade (supermarkets and convenience stores of different sizes) is rather stable and exceeds 47 percent of Ukraine's internal trade. Further growth is restrained by low disposable incomes in the post-crisis period. Future growth will require spatial expansion into smaller towns and rural areas, accompanied with marginal profitability decreases. However, modest growth of smaller trade formats in less-wealthy areas will likely occur in 2017-18.



Source: State Statistics Service of Ukraine

Ukraine's 2014-16 crisis had a more profound impact on the retail sector than the global crisis of 2009. The long-term negative influence of 2014-16 was significant, impacting organized trade and open-air markets as well as unorganized trade by private individuals. Both industry sub-sectors lost over half of their turnover. The slow recovery of 2017 is prolonged by low disposable incomes and lack of domestic and foreign financing.



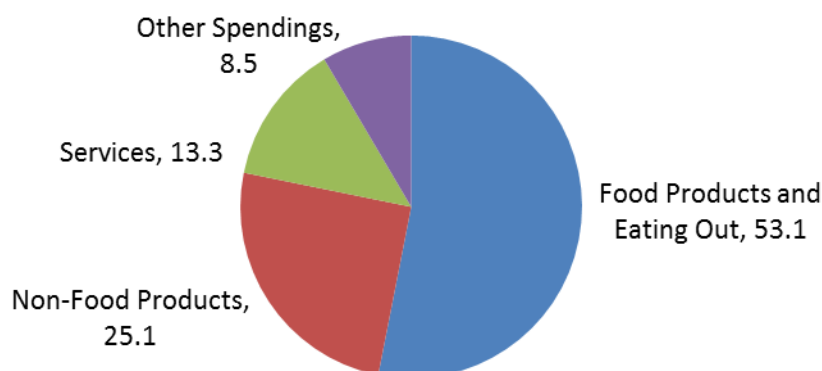
* Both food and non-food items

** Without Crimea

Structure of Trade Turnover

Ukrainians spend over half of their income on food products with staple foods (bread, milk and dairy, confectionary, fruits and vegetables) taking the largest share of family incomes. Semi-subsistence farming plays an important role in rural areas where spending differs from the average numbers presented in the graph below. Backyard production serves as income-supporting activity in cases where rural dwellers have outside employment, work on farms or are retired. It also served as a cushion for the economic crises that shook Ukraine over the last ten years.

Spending of Ukrainian Households in 2016, Percent



Source: State Statistics Service of Ukraine

The share of imported goods in food retail is relatively low, overall. The majority of imported food goods are distributed in organized retail outlets and in urban areas. However, even after significant income reduction, Ukrainian consumers prefer imported pasta, cheese and canned food despite availability of domestic equivalents. Larger cities and densely populated urban areas account for the largest share of retail trade turnover (Kyiv city captures twenty percent of the market, Dnipropetrovsk region – nine percent, Donetsk region – nine percent, Kharkiv region – seven percent, and Odessa region – six percent).

Share of Foodstuffs in Retail Turnover and Imports in 2016*

Product Group	Retail Turnover			Imported Food Products	
	Million USD	Percentage	Per capita, USD	Million USD	Share in total turnover
Foodstuffs - all	8918.3	41	209	1356.6	15
Meat and poultry, fresh and frozen	479.6	2	11	27.7	6
Meat smoked, salted and sausage products	437.1	2	10	22.1	5
Canned foods, ready-made meat products	66.3	0	2	4.4	7
- including semi-processed meat products	29.2	0	1	1.7	6
Fish and seafood	214.9	1	5	94.7	44
Canned foods, ready-made fish products	109.7	1	3	35.1	32
- including semi-processed fish products	21.8	0	1	6.7	31
Milk and milk products	487.4	2	11	26.2	5
Cheese hard, melted and cotage	310.5	1	7	36.2	12
Butter	119.7	1	3	3.1	3
Eggs	141.1	1	3	1.8	1
Vegetable oils	125.0	1	3	9.5	8
Margarine	19.1	0	0	0.5	3
Animal Fats	1.2	0	0	0.1	6
Sugar	93.1	0	2	1.9	2
Bakery products (except confectionery)	292.8	1	7	6.7	2
Baked Confectionery Products	330.3	2	8	22.6	7
Sugar confectionery (including ice cream)	556.0	3	13	75.3	14
Flour	46.7	0	1	1.9	4
Groats	142.6	1	3	10.5	7
Noodles	104.8	1	2	23.8	23
Fresh vegetables	241.9	1	6	38.5	16
- including potatoes	31.9	0	1	3.4	11
Fresh fruits, berries, grapes and nuts	364.5	2	9	215.1	59
Processed vegetables and fruits	73.7	0	2	26.7	36
Canned Vegetables	73.5	0	2	18.0	25
Canned fruit and berries	20.7	0	0	8.1	39
Hard Liquors	485.5	2	11	112.6	23
Alcohol Coolers	52.9	0	1	3.3	6
Wine	213.3	1	5	76.7	36
Cognac	147.8	1	3	28.0	19
Sparkling Wines (Champagne)	94.3	0	2	19.4	21
Beer	467.0	2	11	44.5	10
Soft drinks	299.6	1	7	18.2	6
- including juice	96.4	0	2	5.3	6
Mineral waters	157.6	1	4	14.9	10
Tea, coffee, cocoa and spices including	329.5	2	8	138.6	42
- tea	102.8	1	2	29.0	28
- coffee	179.9	1	4	99.0	55
Products are homogenized food and diet, baby food	77.8	0	2	42.1	54
Salt	9.4	0	0	0.4	5

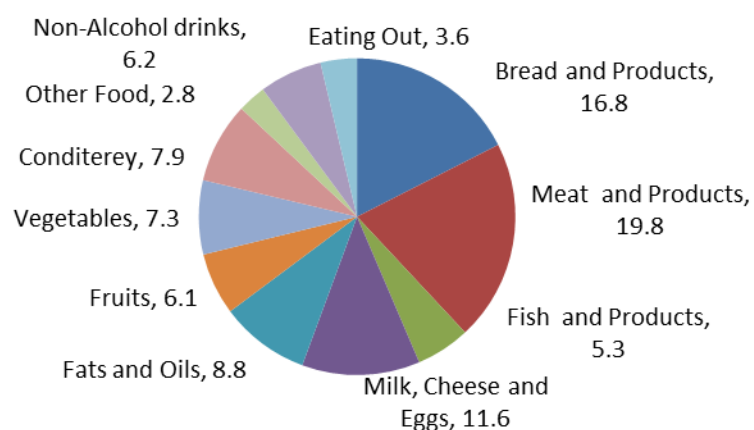
- including iodized salt	2.2	0	0	0.0	1
Tobacco products	1289.1	6	30	70.2	5
Other food products (including honey)	442.4	2	10	77.0	17

Source: State Statistics Service of Ukraine

*Over half of retail trade turnover remains in open-air markets or small businesses that do not report their turnover to authorities.

The proportion of imports in wholesale and retail chains varies both by specific commodity group and type of trade enterprise. Ukrainian supermarkets have the widest product mix and the biggest proportion of imports in all categories of goods. According to an industry survey conducted by the World Bank, supermarkets and green groceries tend to have the largest portions of imported fresh fruits and vegetables: 19 percent and 23 percent, respectively. Some 14 percent of confectionery and 25-40 percent of canned products sold in supermarkets also come from abroad. Except for fruits and vegetables, food stores tend to stock products of mostly domestic origin. However, in last fifteen years, imported food products increased their presence from 6 to 15 percent. Basic food products (fish, meat, fruits) not produced in Ukraine occupy the largest share.

Monthly Food Spending per Household* in 2016, USD



*One household in survey is 2.11 person

** Total Monthly Spending for Food from both official and unorganized trade is \$92.6

Source: State Statistics Service of Ukraine Household Survey

Ukraine is considered a lower-middle-income country according to the World Bank. An average Ukrainian spends slightly under 100 USD for food and beverages per month. A household survey conducted by the State Statistical Service of Ukraine revealed the spending patterns outlined in the preceding pie chart. It must be noted that in rural areas this structure may differ significantly due to heavy use of in-house produced food products.

Distribution of Retail Stores by Type and Size



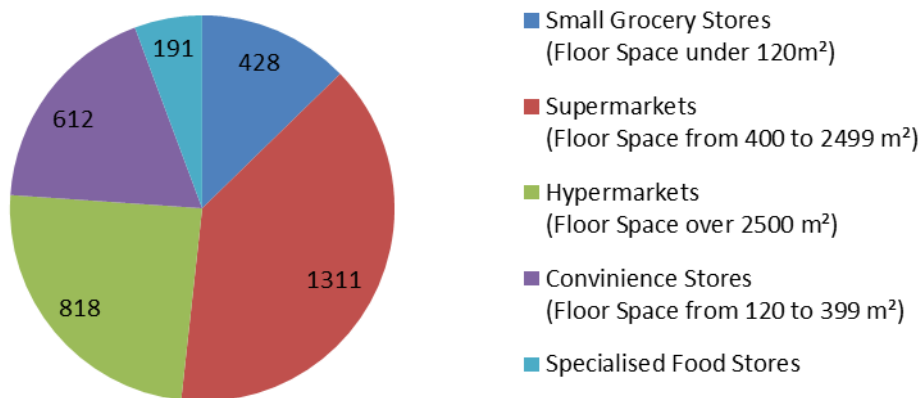
Source: State Statistics Service of Ukraine

* as of January 1st of each year; Definitions of outlet type may be different from those used in the U.S.

Over time the “core” retail industry with a dozen nation-wide chains and some strong regional players was formed. Some retailers operate diverse chains of stores different by size and brand. Many of them use their parent company chain name with “Express” or “Mini” suffix.

Retailers believe that smaller stores allow for retail industry growth in the 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.

Floor Space, 1000 m²



Source: State Statistics Service of Ukraine

The Ukrainian retail industry mimics a lot of features of western retail outlets. The largest chains have their own kitchens, mini-bakeries and processing shops. Recently, chains started to open small indoor cafeterias and food courts. Supermarkets and hypermarkets 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 as the number of hypermarkets declined during recent crisis years.

In an attempt to increase profitability, Ukrainian chains revised their business models. Chains reduced the number of stock keeping units, maximizing profit per square meter of floor space. In many cases this excessive selection led to decreased turnover and lower profits. In this fight for survival on shelves, imported products face greater scrutiny due to higher price.

Despite the growing number of supermarkets over recent years, traditional groceries and open-air markets remain the most popular retail outlet. In Kyiv, which captures approximately one-fifth of the food-product market, and where one-sixth of the country's hypermarkets and supermarkets are located, open-air market sales account for between 25-40 percent of prepared food products.

Even with close attention paid to smaller formats, the share of supermarkets returned to growth in 2016. Smaller independently owned grocery stores slowly declined in number as the most attractive outlets are being purchased by major chains to operate as branded convenience stores. With regard to floor space figures, the share of bigger trade formats will likely grow in coming years if the political and economic situation stabilizes in Ukraine.

Over the past ten years, only three large European retailers (Billa, Metro and Auchan) entered the Ukrainian market to benefit from changing retail trends. 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 numbers of outlets, foreign outlets typically have more efficient logistics, tested market-entry strategies, excellent personnel-training techniques, well-established connections to suppliers, and solid financial support. All these advantages have led to a situation where three western companies are responsible for over 20 percent of Ukraine's organized large scale retail market.

Advantages and Challenges Facing U.S. Products

Advantages	Challenges
Population of 42 million; structural changes in consumption lead to greater demand for value added food products.	Due to economic crisis, decreasing population and erosion of incomes, only small percentage of Ukrainian consumers can afford imported food products.
Recent deregulation in SPS area along with removal of TBTs, accompanied by anti-corruption efforts, led to some simplification of customs procedures.	High trade risks due to political instability make imports of food products cumbersome.
Ukraine's retail sector is recovering, providing a number of opportunities for prospective U.S. exporters.	Strong competition in the local market from domestic producers and increasing imports from neighboring EU.
Import tariff levels for food products are comparatively low.	Ukrainian regulatory changes aimed at compatibility with EU regulations create Technical Barriers to Trade for U.S. suppliers. Only EU-based producers can benefit from many zero import tariffs and import tariff-rate quotas.
American-made food and drinks are still new for the majority of the population.	Growing number of domestically produced generic products; lack of knowledge of American products.
Existence of large importers experienced in importing food products to Ukraine.	Difficulties in finding a reliable partner or distributor.

Import of U.S. food and agricultural products is depressed due to low awareness among supermarket management and importers. Several constraints and misconceptions have contributed to the small market presence of U.S. food products:

- U.S. companies have little reliable information about the country, current market opportunities and potential business partners.
- 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.
- U.S. companies are afraid of political and economic instability in Ukraine and do not want to make deals under significant market uncertainty, sometimes even refusing an up-front paid sale.
- Often EU or Russia-based distributors or representative offices have secondary market responsibility/coverage of Ukraine, and both may miss opportunities while concentrating on their larger core markets.

SECTION II. ROADMAP FOR MARKET ENTRY

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 consumer income trend and particular food sector development prospects (separate market research in order to assess product prospects may be required);
- Availability of similar domestically produced products;
- 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 third country 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 and import requirements. It is advisable to initiate personal contact in order to discuss marketing strategies, funding for advertising, etc. Suppliers may also want to consider trade fair participation to increase awareness of their products.
- Tariff and non-tariff regulations affecting the product. Recent legislative changes aimed at EU approximation are making the Ukrainian trade regime similar to that of the EU. This process transfers existing EU technical regulations and restrictions into the Ukrainian market. Simultaneously, it simplifies the process in cases where products are already registered and freely traded in EU.
- Supermarket entry costs vary 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 range from \$100 to over \$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 one 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.

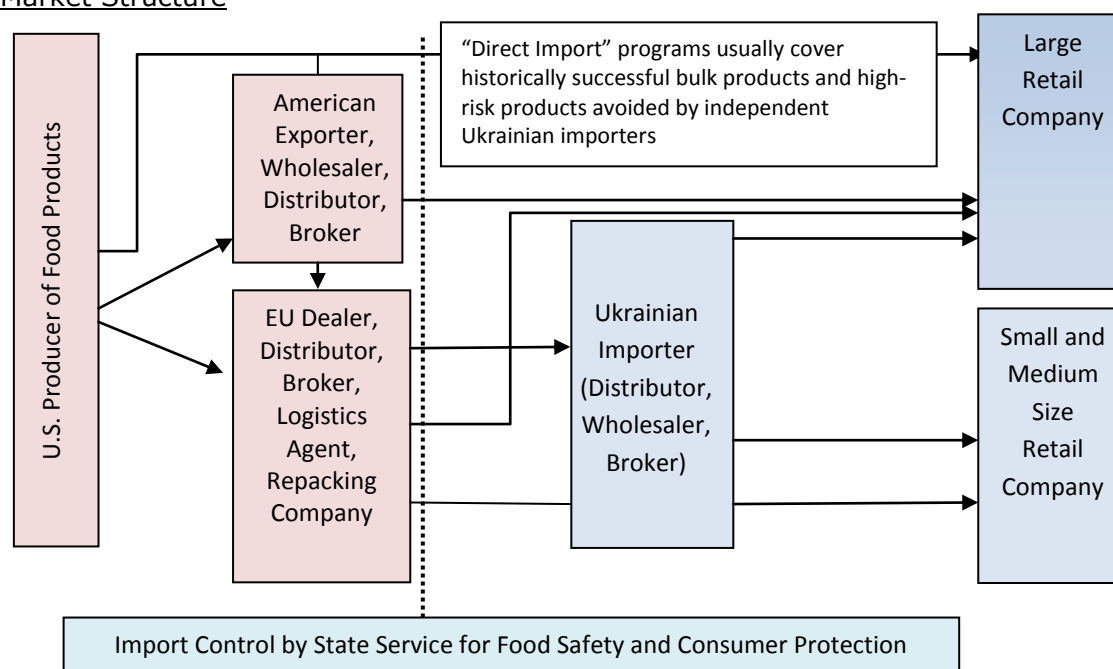
Currently, almost all U.S. food and agricultural product exporters work through a Ukraine-based subsidiary, importer, or through the procurement service of the buyer. Local distributors are more flexible, usually have established marketing channels and can provide local customers with short-term (5-30 day) credits in kind. In the vast majority of cases the importers are also responsible for the entire logistical chain and inland transportation. Due to frequent changes in Ukrainian legislation, 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. Ukrainian laws and regulations are often 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.

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 products 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.

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.

Market Structure



In-house Importing Departments (Direct Import Programs) vs. Distributors

Historically, Ukrainian chains minimized trade risks by avoiding direct ownership of products offered for sale in their stores. In fact retailers “facilitated” trade by offering “sales services” for a fee. This trade model dominated due to significant market power gained by retailers who controlled half of trade turnover. Chains were able to secure large “credits in kind” and favorable payment conditions (with frequent and prolonged delays) for products sold. They also avoided certain marketing issues such as product failures, labor costs associated with stocking shelves, shelf life problems, etc. This approach insured additional cash reserves that facilitated industry’s rapid expansion, but alienated suppliers who complained about predatory retail practices. As industry matured, this business approach created multiple management problems as chains’ control over product flows, shelving, assortment and product availability became increasingly complicated.

Today, Ukrainian retailers take a case-by-case approach regarding terms for each product or product group individually. In many cases risks associated with imports were so high that no distributor would work on sale terms offered by retailers. In other cases (when market share for the product was well established) chains lost profit margins that were going to importers and distributors. In order to fill the gaps in some product groups (wine, hard liquors or niche products) or to increase margins by eliminating an importer/distributor (fish and seafood products, produce) chains started in-house direct imports.

The number of in-house import/procurement departments of major Ukrainian chains has grown drastically. Their role is important for mass market products where chains have significant experience and would like to control import flow themselves. Ukrainian chains often import seafood products, wine, and the grocery and delicatessen group. Independent importers increasingly concentrate on venture niche products and new-to-market products. It is often producers’ policy to work on a particular market through assigned importers or distributors. As soon as chains feel comfortable with import volumes and value, they attempt direct imports. FAS/Kyiv is aware of direct imports of U.S. fish, meat products, fruits, nuts, sauces, beer, granola and dried fruits.

Types of Retailers

As reported by the State Statistics Service of Ukraine, the number of retail food trade companies decreased over the crisis period and stabilized in 2105. The trend for fewer stores and larger store area slowed as large hypermarkets were unable to stay in business. Some unprofitable supermarkets were closed while the number of branded convenience and specialized stores decreased insignificantly. Some drop in the number of retail outlets is associated with the loss of Crimea and eastern regions now uncontrolled by the Ukrainian central government.

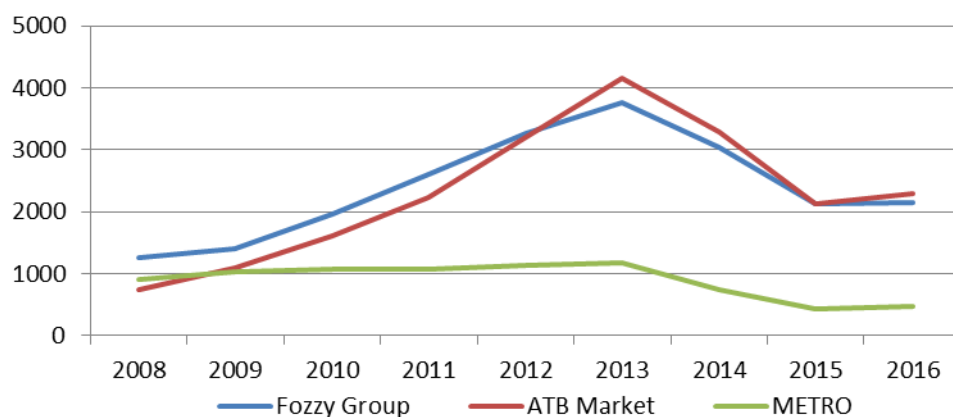
Ukraine’s Stores Network



Source: State Statistics Service of Ukraine

The retail market is dominated by Ukraine's two largest chains: Fozzy Group and ATB Market with the rest of the industry catching up. Being more diverse, Fozzy operates a number of different formats ranging from premium grocery stores (exotic for Ukraine) to large discounters. However, the majority of business is in the conventional supermarkets and grocery store segment. ATB Market is consistent in its dedication to a small store grocery discounter format, although some locations can be larger than others.

Three Largest* Retail Chains Turnover, Million USD

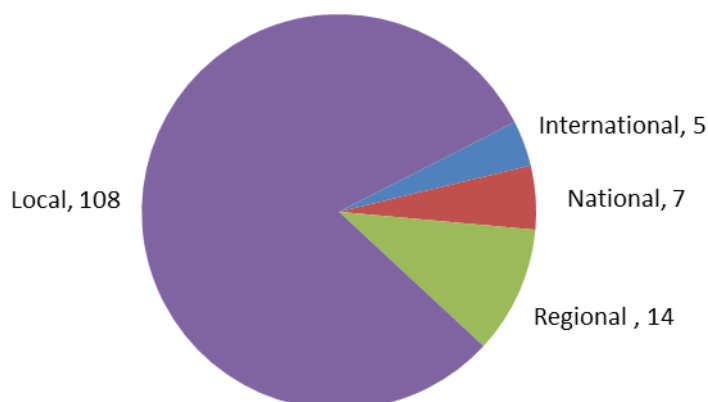


Sources: FAS/Kyiv own calculations, GT Partners Ukraine, Ukrainian Retail Association

* Acquisition of Karavan chain by Auchan Group may replace the third largest player in 2017

The number of retail chains in Ukraine is very significant; however the vast majority of registered companies operate just a few local retail outlets within one town or municipality. Only seven chains are represented in all regions covering the entire country. International operators are careful in entering the Ukrainian market. The majority of them have had far-reaching plans, but few have built nation-wide chains. The majority remain tied to urban centers where business is the most profitable.

Food Retailer Distribution by Company Type as of December 2016



Sources: GT Partners Ukraine via Ib.ua

Traditional groceries in big cities are losing their clientele due to new and improved services that are provided by chain retailers. Chain convenience stores are slowly taking over the traditional retail. Soft discounter format (supermarkets with reduced product range offering the best prices) has proven to be especially successful. In many cases convenience chains are operated by entities that also operate larger supermarkets and hypermarkets. Access to distribution centers, producers' wholesale discount programs and operational cost sharing provide them competitive advantages. However there are independent convenience chains that operate successfully.

Open-air markets and kiosks have difficulty competing with organized retail due to low product quality (this is a major channel for uncertified and counterfeit goods), inability to ensure proper storage conditions, product availability, convenient shopping condition and favorable price. Open-air markets are the major channel for very small sellers of domestically produced or home-made products, and fresh products (including meat and seasonal vegetables and fruits). They are also the only option in small towns and villages where organized trade makes little business sense. In those cases kiosks or traditional groceries would offer basic selection of processed shelf-stable packaged foods and refrigerated products, while weekly open-air markets would provide access to fresh products.

Supermarkets are not completely driving out open-air wholesale markets and over the counter grocery stores, but they are forcing them to modernize equipment and marketing techniques.

Supermarkets, Hypermarkets

The first domestic supermarket chains emerged to satisfy the new and growing demand in the 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 dropped to 855 by 2017. The first Ukrainian mall – "Karavan" (classified as a hypermarket by the State Statistics Service) 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 a 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 10–15,000 stock keeping units (SKUs), with 85-90 percent of these items 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. Operators agree that the market for larger stores will continue to develop in the near-term despite the economic slow-down. However, the latest trend in retail development is downsizing of existing formats with more emphasis on the chain convenience store segment that sells food products at discounted price. Retailers are trying to cover all profitable locations taking advantage of the real estate price decrease.

Important Note: Since most retailers in Ukraine are not public companies and do not publish information about their turnover, FAS/Kyiv used information from different open sources. Ukrainian retailers often operate multiple chains (conventional supermarkets and small "near home" stores) reflected in the different tables. This makes turnover estimation for a particular type of outlet nearly impossible. However, estimated turnover is provided in the table on the next page and covers all types of outlets operated by a retailer. The turnover column is excluded from the "Convenience Stores Chain" table.

Hypermarket and Supermarket Chains in Ukraine (Rating from Bigger to smaller)

chains)*

Retailer Name and Outlet Type	Ownership (Turnover/Year)	No. of outlets as of 2014	Locations	Purchasing Agent Type
Sil'po supermarket	Fozzy Group \$2.160 bln/2016	229	Nation -wide	Direct/importer
Fozzy, C&C		9	Nation -wide	
Le Silpo		4	Central Ukraine	
THRASH!		40	Nation -wide	
Metro, C&C	Metro Cash and Carry - "Metro AG" Germany \$ 0.465 bln/2016	23	Nation-wide	Direct/importer
Metro Baza "Beri-Vezi"		3		
Furshet, Furshet Gurman, Narodnyi	Furshet LLC \$0.64 bln/2013 not published	81	Nation-wide, Moldova	Direct/importer
Auchan	Hypermarket Auchan Retail Ukraine LLC (by Auchan Group, France)\$0.450 bln/2016	20	Nation-wide	Direct/importer
Velyka Kyshenya, VK Select, VK Ekspres Walmart	Retail Group Holding \$0.293 bln/2016	65	Nation-wide, Moldova	Direct/importer
Tavriya-V, Kosmos, T-Sprint Kafe, Blesk I Vedro, Tavrik	Tavriya-V LLC \$0.289 bln	95	Southern/Central Ukraine, Kyiv	Wholesaler/Direct/importer
ECO-Market supermarket	Bayadera Ltd. LLC EKO \$0.242 bln/2016	114	Nation Wide	wholesaler/direct/importer
Fresh, Arsen, Sojuz	Eurotech Ltd.	31	Western Ukraine, Chernihiv, Kherson	wholesaler/direct
PAKKO, supermarkets	Pakko Holding	12+65	Western Ukraine	Direct/importer
Vopak, C&C				
Nash Kraj	VolWest Group	225	Nation-Wide	Direct/importer
Novus	BT Invest (Lithuania)/Novus Ukraina LLC \$0.238 bln/2016	37	Central, Southern and Western	Direct/importer/wholesaler
Spar, Spar Express	Franchisees (Spar Ukraine Corp)	4	Western Ukraine	Direct/importer/wholesaler
Colibris, 555	Avanta TD	45	Western Ukraine	Direct/importer
Varus	Omega Ltd. \$0.250 bln/2016	59	Central-Eastern Ukraine	Direct/importer
Megamarket,	Megamarket LLC	7	Kyiv, Kyiv Region	Direct/importer

Billa, supermarket	REWE International AG, Austria	27	Central Ukraine, Dnepr, Odesa	Direct/importer
Virtus, supermarket	"Virtus" Trading Group	19	Odessa, Mykolaiv	wholesaler/direct/importer
Bjilka Market	Legion 2015	16	Kyiv and Kyiv region	Direct/importer

*Sources: Company information, expert estimates, FAS/Kyiv estimates

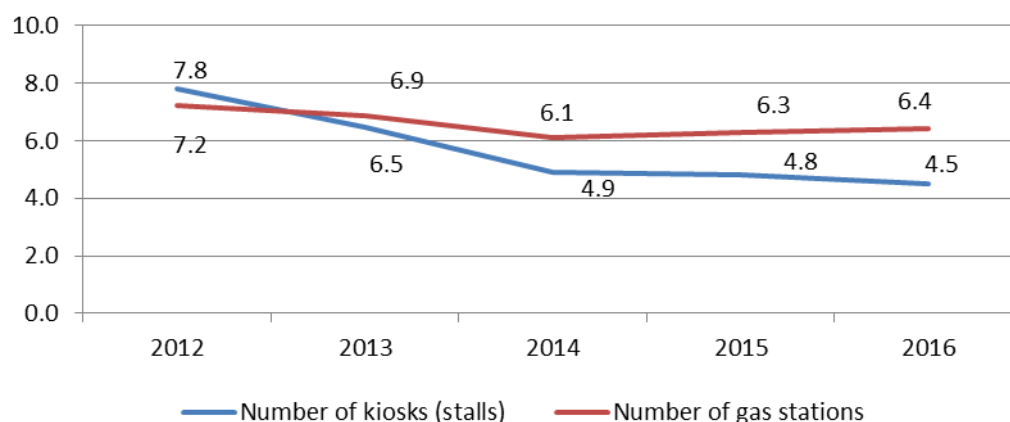
Kiosks and Gas Marts

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 a limited number of food products. There are dedicated kiosks for sale of tobacco products. These kiosks are often-located with large supermarkets that are not allowed to sell tobacco product on the main floor. Sales of alcohol in kiosk are subject to severe restrictions.

Limited floor space (usually 8-25 square meters) and a relatively wide stock list (on the order of 100-200 SKUs), 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 with some resembling small grocery stores. Some specialize in specific product groups. 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 in Ukraine after some slowdown. Many of them open stores that sell packaged food products including imported ones. This includes soft drinks, cookies, chocolates, and various snacks. Some go into the fast-food business selling burgers, hotdogs or traditional Ukrainian dishes. The service-store network is under development and is viewed as an auxiliary revenue source by many chain gas station managers. The largest Ukrainian gas station chain entered the top 20 largest retailers list in 2016. Further development of the network has good prospects and may increase its share of retail sales.

Number of Kiosks and Gasmarkets in Ukraine



Source: State Statistics Service of Ukraine

Chain Convenience Stores and Self-service Groceries

Chain grocery stores are very common in Ukraine these days. The shortage of suitable land plots makes many retailers consider smaller formats. Large retail chain management realized that the most cost-effective and simplest way to expand market presence is acquiring and reformatting old over-the-counter grocery shops into modern self-service chain convenience stores. Most of these stores were located in residential areas of smaller urban centers and towns. Limited store space and proximity to consumers created perfect pre-conditions for development of small discounters. Attempts to create “classic discounters” with limited assortment offered in boxes and cartons on the store floor failed. Even price-cautious consumers avoided those stores despite obvious benefits. Modern Ukrainian discounters look like smaller versions of supermarkets or convenience stores with smaller product selection.

One Ukrainian retail company made convenience stores its core business and perfected the concept – ATB. ATB-Market LLC became widely popular for its low prices. It quickly became the largest retailer by store number and competes aggressively with Fozzy Group for the gross turnover leadership. Fozzy Group, which started as a large discounter and later as supermarket chain also realized potential of small convenience stores and developed Fora and Bumi-market grocery chains. According to industry analysts, the chain may slow down development of its Silpo supermarket chain, but will not cut back on its Fora chain despite economic downturn.

Larger convenience chains procure their food products in a way which is not different from supermarkets as they are owned by the same retailers. They utilize parent company operated distribution centers and procurement chain of command. Smaller chains work mainly through the local distributors and procuring companies. Own procurement and own imports are rarely practiced. Convenience chains may be of interest to U.S. exporters of cheaper products as they represent the discounter market segment. Packaged, shelf-stable food products with excellent price/quality ratio may find their way to the shelves.

Usually, grocery stores are located in bedroom communities, offer a narrow product range and have limited floor space. These new groceries are quickly replacing the over-the-counter food stores. The average floor space varies from 300 to 500 square meters. Stock lists include an average of 1,500 to 3,500 items. Although, some large stores prefer to keep an expanded assortment up to 5000 SKUs. Grocery outlets have become rather popular among pension-age consumers who prefer to shop close to home. Retirees often make multiple 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 loyal customers and their market share is relatively small. Nevertheless, grocery stores are very successful in small Ukrainian towns.

The Largest Convenience Store Chains in Ukraine*

Chain Name	Owner/managing company	Type of the company	Trade outlet type	Number of outlets	Location
ATB (Discounter)	ATB-Market LLC (Ukraine) Turnover, 2016:\$2.289 bln	Direct/wholesaler/importer	Grocery / Discounter	894	The Biggest Nation-wide Chain
Fora	Fozzy Group	Direct / importer	Grocery / Discounter	248	Nation-wide
Favor	Fozzy Group	Direct / importer	Premium Grocery	1	Kyiv Region
Brusnychka	Ukrainian Retail (SCM Group)	Direct / importer	Grocery / convenience	100	Nation-wide
Rukavychka	TVK Lvivholod	Direct / importer	Self-service Grocery	112	Western Ukraine
Lotok	LK-Trans LLC	Direct	Grocery/Convenience store	84	Kyiv, Kyiv region
Kopeyka	Trading chain Kopeyka	Wholesaler/importer	Convenience store	71	Odesa, Nikolayev, Kherson
Econom+	TK Econom Plus LLC.	Direct / importer	Convenience store	46	Zaporizhzhia, Kharkiv, Kyiv, Poltava
Absolute	PKF Lia LLC.	Wholesaler/Direct	Convenience store	26	Eastern Ukraine
Kvartal	Eurotec LLC	Direct / importer	Grocery / convenience	26	Northern and Central
Obzhora	Obzhora Chain	Wholesaler/importer	Grocery	23	Odesa Region
Virtus	"Virtus" Trading Group	Wholesaler/direct/importer	Odessa, Mykolaiv	19	Odesa, Mykolaiv
Topmart	Groupa Retaila Ukrainy LLC	Wholesaler/Direct/importer	Grocery/Convenience store	5	Kyiv
SPAR Express, Spar	Spar Ukraine LLC.	Wholesaler / importer	Grocery / Convenience store	4	Eastern Ukraine

* Some chains operate conventional supermarkets;
Sources: Company information, open press, FAS Estimates

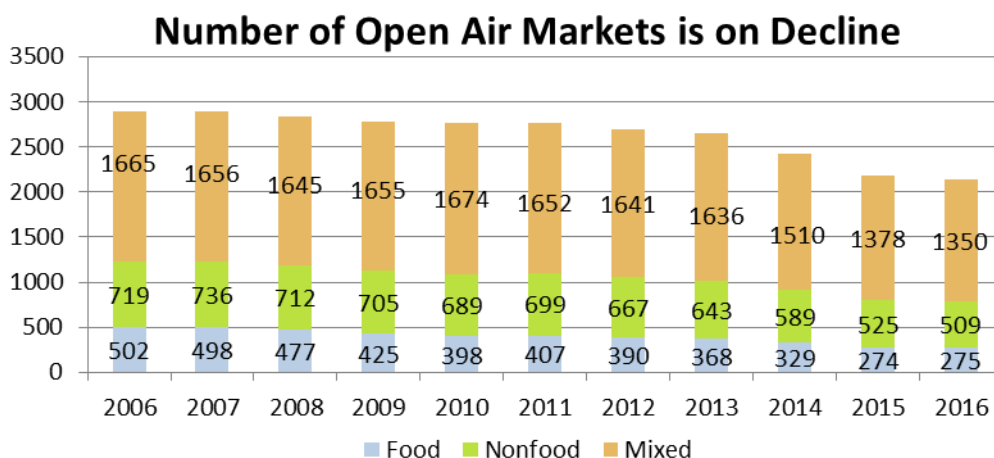
Traditional Outlets: Independent Grocery Stores

Stores with behind-the-counter sales (traditional groceries) are becoming rare in Ukraine. These stores have often been taken over by chain convenience store companies and converted into modern self-service convenience stores. Some groceries are operating successfully in distant small districts of large cities, villages and small provincial towns where the construction of supermarkets or modern chain convenience stores is economically unjustified. Traditional groceries serving urbanites in larger towns 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 and services.

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

Traditional Outlets: Open-Air Markets

As reported by the State Statistics Service of Ukraine, there were 2,134 open-air markets (bazaars) of all types in Ukraine in 2016, including almost 275 food product open-air markets. Twenty five 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 and account for approximately 52 percent of the total number of markets of all types. The largest number of food product open-air markets in Ukraine is concentrated in the most populated regions. Typical Ukrainian open-air markets would include a space for farmers, while behind-the-counter kiosks sell packed and processed products. The open-air market kiosks zone would trade in low and middle priced 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. Many younger customers genuinely believe they are more “natural” or even “organic” in nature.



Source: State Statistics Service of Ukraine

Ukrainian open-air markets or kiosks and stall owners do not import food products directly. U.S. exporters may get access to this market segment through wholesalers or importers only. Share of imported food products in open-air markets is insignificant with the exception of fresh fruits, vegetables and seafood.

Ukrainian open-air markets are the leading sellers of seasonal domestically produced vegetables and fruits, traditional dairy products (fluid milk, sour cream and cottage cheese) fresh meat, honey and dried fruits. For meat products their share might reach 75-80 percent. At the same time, sales of dairy products, sunflower oil and seafood 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, and traditional U.S. consumer food products, which ordinary supermarkets find inconvenient to stock due to low demand.

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 will 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 also diminish.

SECTION III. COMPETITION

The overall market will remain very competitive, with preference continuing to focus on food product exporters from EU countries. In many cases, EU suppliers managed to build a stable demand through taste development for their products. This covers a wide range of geographically protected dairy, meat products and alcohol beverages. When supplying similar products, U.S. exporters would have to overcome long-established preferences for similar products of European origin.

In March 2014, Ukraine signed the [EU-Ukraine Association Agreement](#), solidifying the country's intention to integrate into the European Community and bring laws and regulations closer to European standards to support trade and attract sorely needed investment. A crucial economic component of the Association Agreement was the Deep and Comprehensive Free Trade Area ([DCFTA](#)). The DCFTA established lower import duties for European suppliers along with tariff-rate quotas for many sensitive products. The DCFTA made competition from the EU even stronger.

Adoption of EU-centered import requirements, regulation and certifications imposes additional burdens on U.S. exporters making trade in selected products impossible. For more information refer to the most recent [FAIRS](#) report.

A number of neighboring countries also enjoy Free Trade Agreements with Ukraine. Some of them are multilateral (with Commonwealth of Independent States – CIS) being the most important one, while others are bilateral. Food products from CIS countries usually occupy the lower market segments proposing good price/quality ratio. Some consumer preferences for food products from

neighboring countries originates from back in Soviet times. In early 2016, Ukraine [canceled its FTA with Russia](#), introducing a number of bans for imported Russian food products.

However, the biggest competition for U.S. food suppliers is the local food industry. Economic disturbances of recent years, followed by massive currency devaluation, made domestic producers highly competitive. However, the same factor delayed industry development and slowed production growth and introduction of new technologies and innovative products. Leading multinational food processors have established food processing operations in Ukraine, and are able to offer a range of western-style food products at reasonable prices.

Main Delivery Sources and Volumes of Specific Product Imports to Ukraine

Product Category	Major Supply Sources in 2016 and their share*	Strengths of Major Supplying Countries	Advantages and Disadvantages of Local Suppliers
Almonds (HS 0802) Net imports: \$ 14 mil US Supplies: \$ 6 mil	1. U.S. – 42 2. Turkey - 28 3. Georgia - 13	U.S. product dominates this market. Competition is growing	There is no local production, although there is a demand from snack and confectionary industries.
Sauces and preparations (HS 2103) Net imports: \$ 45 Million	1. Germany - 26 2. Poland - 19 3. Austria – 17 U.S. - 1	Well-established market share, good quality, geographical proximity, very high price; lack of certification problems	Affordable products of good quality, lack of sauce consumption tradition
Fish and Seafood products (HS 03, 04) Net imports: \$ 456 mil US Supplies: \$ 38 mil.	1. Norway – 28 2. Iceland - 14 3. U.S. – 8	U.S. share of Ukrainian market is quickly growing while share of traditional exporters (Estonia and CIS countries) is shrinking. Norway promotes its products very aggressively, investing in processing and cold storage.	Local production is limited mainly to fresh water fish and Black sea basin fish. Popular fish species are not supplied by local fishermen and have to be imported.
Pet Food (HS 2309) Net Imports: \$ 138 million US Supplies: \$2.3 mil.	1. Poland - 21 2. France - 16 2. Hungary - 12	Exports of well-known pet food trademarks from EU dominate in the upper market segment. U.S. brands are perceived as high quality. Russia left the market in 2015, leaving the lower segment to domestic producers	Traditionally high number of household pets, large market potential; low demand for industrially produced pet food; Significant number of domestic producers in lower segment
Wine (HS 2204) Net Imports: \$ 85 million US Supplies: \$0.3	1. Italy - 29 2. France - 15 3. Georgia - 14	Georgian wine is reasonably priced and has traditional brands. Western wines occupy the upper segment and are perceived as high quality	Steady demand for locally produced wines; production experience; broad assortment and low prices; poor positioning of high quality

Million			vintage wines; traditional preference to sweetened wines
Peanuts (HS1202) Net Imports: \$ 26 million US Supplies: \$1 Million	1. Argentina - 41 2. India - 38 3. Brazil - 12	Heavy competition from major historical suppliers	There is no local production, although there is a demand from snack and confectionary industries.
Sugar Confectionary (HS 1704) Net Imports: \$ 26 million US Supplies: \$0.4 Million	1. Poland - 30 2. Germany - 17 3. Turkey - 16	Traditional sweets are exported from Germany and Turkey. Geographic proximity of Polish market allows for niche exports in lower and middle market segment.	Severe competition from local suppliers in both upper and lower market segments
Beef (HS 0201) Net Imports: \$ 1 million US Supplies: \$0.5 Million	1. U.S. - 58 2. Belarus - 26 3. Australia - 15	U.S. dominates the market due to superior product quality. Australia is the largest competitor. Belarus supplies lower quality main market segment beef.	Ukraine turned into a large beef exporter as domestic demand decreased. Domestic producers are not able to match quality and insure stable supplies.

Sources: State Statistics Service of Ukraine, expert estimates

SECTION IV. BEST PRODUCT PROSPECTS

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

Product	2016 Market volume	2016 Import value	Average growth of import over the last 3 years*	Import taxes**	Main factors hindering import development	Attractiveness of the market for the USA
Sauces and preparations (HS 2103)	4.2 MT	\$ 44.9 Million	-40 percent	10-15 percent depending on specific tariff line	Consumer unawareness of U.S. product; Sizable domestic production, Complicated import procedures.	Niche market for U.S. sauces; good growth perspective, reliance on just few exporting countries; Fast HRI development.
Fish and Seafood (HS 03)	273 TMT	\$ 409 Million	58 percent	0 – 5 percent for all frozen fish; 10 percent for prepared fish, live fish, Mackerel, Trout, some	Regular deliveries of high quality product from Norway; Deficit of proper storage facilities with below –20C	Growing demand for higher quality seafood from consumers; Significant demand from both supermarkets and HRI sector.

				Crustaceous, Anchovy, Salmon and Lobsters.	temperature.	
Wine (2204)	43 Million Liters	\$85.2 Million	-11 percent	0,3 – 1.5 €/liter depending on wine type	Low disposable incomes, low awareness of the consumers; lack of interested importers	Large market unaware of the new world wines; good image of California wines
Nuts (HS 0802) Almonds and Pistachios	1.9 TMT	\$ 13. 5 million	-46 percent	0 – 15 percent depending on specific tariff line	low awareness of the consumers and importers; presence of EU-packaged U.S. almonds	New to U.S, producers market; growth of “natural” snack category and healthy food trend

* Due to severe economic and political crisis the 3 year import data might be misleading

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

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

Premium-class food products: meat specialties (meat for further cooking – steaks, fillets, etc.), smoked meat, cheese;

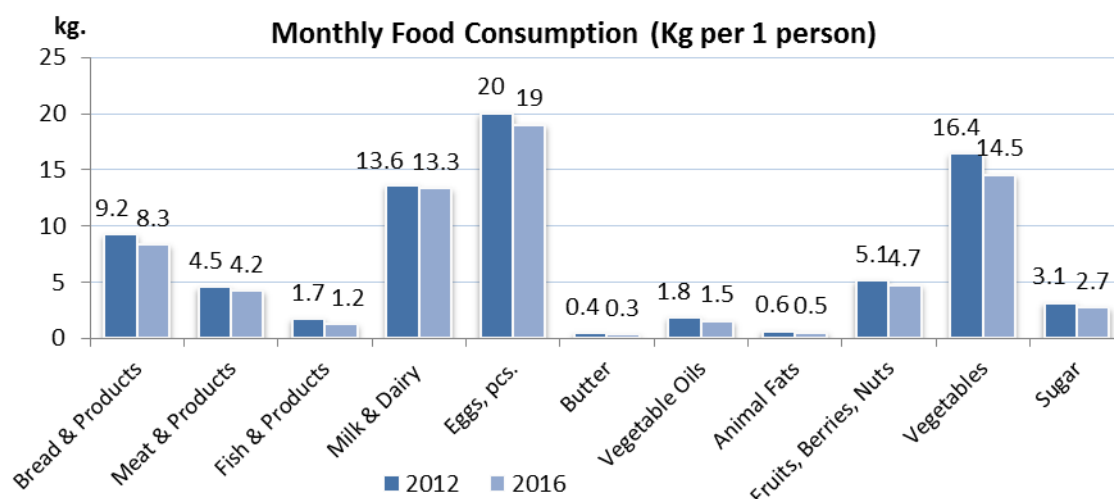
- Exotic seafood, ready-made high-quality canned fish;
- Cereals: muesli, instant porridge, ready-made rice, different sorts of ready-made packed rice;
- Food for diabetics;
- Specialized infant food, canned vegetables and infant fruit food;
- Exotic drinks/juices (from exotic fruits, energy drinks, 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 customers. The low current incomes of this category likely make this market profitable only in the future.

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

- Any food product that has a genetically modified component in it (unclear and incomplete legislative framework for registration of GM products). Labeling of such products is compulsory.
- Ready-to-eat meat products (smoked meat, sausages, hotdogs) – high competition of similar Ukrainian products, significant veterinary clearance barriers.

SECTION V. ATTACHMENTS

Per capita Food Consumption (in 2012 and 2016)



Source: State Statistics Service of Ukraine

Ukraine's Imports of Consumer Oriented Agricultural Products

Commodity	Description	Million U.S. Dollars			% Share			% Change 2017/ 2016
		2015	2016	2017	2015	2016	2017	
080390	Bananas, Fresh Or Dried, Nesoi	79	86	91	8	9	8	5
230910	Dog And Cat Food, Put Up For Retail Sale	36	34	43	4	3	4	26
220421	Wine, Fr Grape Nesoi & Gr Must W Alc, Nov 2 Liters	24	36	41	2	4	4	16
2101 and 090121	Coffee and Coffee Extracts	116	96	102	12	10	9	14
080510	Oranges, Fresh	42	37	27	4	4	2	-27
080930	Peaches, Including Nectarines, Fresh	16	16	24	2	2	2	50
180690	Cocoa Preparations, Not In Bulk Form, Nesoi	22	22	23	2	2	2	4
220300	Beer Made From Malt	16	18	23	2	2	2	30
020714	Chicken Cuts And Edible Offal (Inc Livers), Frozen	19	17	23	2	2	2	38
080520	Mandarins (Inc Tanger Etc) & Citrus Hybr Fr Or Dri	34	31	23	3	3	2	-26
080550	Lemons And Limes, Fresh Or Dried	25	20	20	2	2	2	-2
190110	Food Preparations For Infants, Retail Sale Nesoi	19	18	20	2	2	2	10
180631	Chocolate & Othr Cocoa Preps, Not Bulk, Filled	15	13	19	2	1	2	50

170490	Sugar Confection (Incl Wh Choc), No Cocoa, Nesoi	13	14	19	1	1	2	36
070200	Tomatoes, Fresh Or Chilled	15	26	18	2	3	2	-32
040690	Cheese, Nesoi, Including Cheddar And Colby	7	10	15	1	1	1	48
	Others not Listed	504	497	557	50	50	51	n/a

Source: State Statistics Service of Ukraine