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## Ukraine

### Retail Foods

### Annual Report

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**Report Highlights:**

Throughout 2011 the Ukrainian retail sector slowly recovered after a crisis drop in 2008/09. Heavily indebted and unable to refinance debt or finance development on acceptable terms, retailers concentrated on slow regional expansion. For 2012 projected sales are expected to grow if the macroeconomic situation remains stable, and the industry may recover to 2008 trade turnover numbers. Growth is expected to concentrate in smaller formats: open-air markets, smaller stores and cheaper stores. Sales of imported food products are likely to remain stable

**Post:**

Kiev

## **SECTION I. MARKET SUMMARY**

Ukrainian retail trade in food products developed rapidly over the past seven years. This growth had been driven by a strong economy and by an increase in consumers' incomes. Some changes in the expansion pattern were observed in 2007 to early 2008 with more emphasis on small retail formats, shopping malls development and expansion of chains into the regions. The October 2008/09 financial crisis ended these rapid expansion trends and opened a whole new period in Ukrainian retail development. In 2010, the market stabilized and began to recover.

In 2011, the market slowly grew with intensive use of own resources as external financing became unavailable or overly expensive. Chains were able to attract foreign currency financing at a 10-12 percent interest rate. Local currency financing costs ranged from 14 to 25 percent in last two years. In 2011 most chains re-evaluated their business models closing unprofitable stores and opening new ones in attractive locations. Around one-third of new supermarkets opened during the last year were remodeled/rebranded stores.

In 2010/11 financially sound retailers continued their efforts on M&A market seeking to gain control over regional, small, or heavily indebted chains. In post-crisis years many retailers maintain negative market value of their business due to excessive debt accumulated before crisis. This fact significantly complicated M&As and expansion of financially sound chains. Banks provided retailers with loan repayment breaks unwilling to bankrupt profitable businesses and accept the loss.

An abrupt devaluation of Ukrainian currency the Hryvna (UAH), in the early fall of 2009 led to a 14.7 percent GDP contraction, a sharp 20 percent decline in retail turnover, and an even more drastic 34 percent decline in retail chains and stores. Consumer demand recovered since then, but Ukrainian customers became more price cautious and more demanding for quality of service.

A tight state budget in 2011 led to a significant decrease in social spending. Although average consumers' real income is expected to grow in 2011, some categories of consumers will be experiencing difficulties. The GOU and international organizations agree on a modest 5.0-5.5 percent GDP growth forecast in the current year. This forecast suggests modest trade volume growth and retail trade recovery.

Some foreign chains may use the situation to their favor looking for attractive assets among local chains or acquiring attractive locations of bankrupt Ukrainian retailers. The financial condition of the majority of Ukrainian retailers will remain difficult due to massive debt repayments.

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

## **Developments Prior to Crisis Period**

In 2007 and 2008 the Ukrainian food retail sector quickly grew with increases in turnover of trade at 29 percent and 27 percent respectively. The share of unorganized trade in open-air markets decreased from 29 percent to 22 percent over those two years. The share of chains rapidly grew from 26 percent to 33 percent for the same time period. Retailers' expectations were that the market would continue to grow at 20-25 percent until 2011-2012 when some saturation point was foreseen. After capturing the big cities with population over one million retailers concentrated on regional expansion. Growth in big urban centers remained attractive, but expansion costs were too high. An overheated real-estate market, problems with building permits, distribution of land plots, and an unclear business environment made development of supermarkets problematic. Many multinational chains considered the environment in Ukraine to be too hostile for market entry. This situation was reflected in A.T. Kearney's Global Retail Development Index (GRDI). In 2005 Ukraine received 87 points (out of 100) and was ranked 4<sup>th</sup> among countries where international retailers were recommended to do business. The country slipped to 17<sup>th</sup> place in 2008, but kept this position in the 2009 report. In 2011 index, Ukraine completely disappeared from the list of 30 most attractive retail markets. In the capital many chains concentrated on a smaller format as an adjustment to fewer available locations. Most self-service grocery stores were opened as replacements of old soviet-style stores where clerks served customers from behind the counter.

Regional development brought new challenges for national retail chains. Strong local competitors were reluctant to give up market share without a fight when nation-wide chains entered their ground in 2005-07. All national chains started in the capital Kyiv where market size and consumer incomes were the largest. In the past five year's competition fought for market dominance by fighting for the most advantageous real estate. Chains almost gave up trying to win over customers based on satisfaction of consumer preferences. Despite relatively low saturation of the Kyiv market, high rents and the cost of real estate drove Ukrainian retail business to expand regionally.

Still, the development of retail in Ukraine continued at a fast pace with no clear distinction of supermarket formats. Any self-service store of 200-300 square meters would declare itself a "supermarket" with competition through low price offers. Some self-organization started only in 2008-2009 with international retailers entering the market and growing. Prior to the financial crisis many retailers saw the following formats as being worth attention: convenience stores, shopping malls, hypermarkets, and the gourmet grocery store niche. Convenience stores succeeded mostly due to low barriers to entry, abundance of locations, and low risks. Trade developments after 2009 suggest that over the crisis period convenience grocery stores will remain viable in the near future, but longer industry trends suggest hypermarkets and shopping mall formats are likely to succeed.

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

State Regulation of the industry was quite messy. On one hand the Government of Ukraine

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

## **Mergers, Acquisitions and International Expansion**

Ukraine did not provide good grounds for international chains to expand retail businesses. Rather, Ukrainian investment expanded into some less developed foreign markets. Many Russian retailers viewed Ukraine as a good territory for business development, but none of them met with success. Russian Perekrestok, Piaterochka and Patterson opened their stores in different cities. Patterson sold their business to the Ukrainian chain "Eco" in 2007. Another Russian retailer, Paterson, announced an ambitious plan in 2005, but did not move much further. Piaterochka sold their locations in Eastern Ukraine to local competitors at the end of 2007. Perekrestok was able to open seven locations (five in Kiev and two in surrounding cities), but held back on major expansion. Existing stores did not attract sufficient buyers, operating in a "conventional supermarket" format.

Facing a shortage of potentially profitable locations, heavy competition from local chains, political obstacles at the local authority level (in bids for land plots) and crisis developments in Ukrainian retail, Russian chains started M&A negotiations with some Ukrainian retailers. The price range given by current owners did not satisfy the Russians and no deals were done in 2008-2009. Ukrainian retail business intensively attracted bank loans in 2005/08 and prior to financial crisis accumulated significant debt. By mid 2011 a new situation developed when M&As are of no interest neither for chain owners nor for new investors. The evaluated "net worth" of the many chains became negative as amount of loans attracted exceeds these estimated values. Banks see no sense neither in collateral claim nor in sale of the retail business since expected return would not cover the debt.

Ukrainian expansion into neighboring countries was more successful. Two of the biggest Ukrainian retailers entered the Moldova market. Kviza Trade (Velyka Kyshenia TM) now owns 12 supermarkets (through the purchase of the local chain Green Hills) and Furshet Ltd (La Furshet TM) also owns 9 supermarkets under its own brand, all in Moldova.

Due to market entry obstacles one international retailer decided to cooperate with one of the local chains. The joint venture of Furshet and Auchan Group (France) was established in March of 2007. The French retailer agreed on portfolio investment into the La Furshet chain. The mass media reported that Auchan Group purchased a 20 percent share of Furshet chain in exchange for an unknown sum of money plus 34 percent share of Furshet in any Auchan hypermarket store opened in Ukraine or Moldova. Furshet Ltd. also agreed to facilitate Auchan Group's search for new locations (one plot was provided in Kiev right after the deal) and lobbying its interest at the regional level. Another joint stock company (Auchan Group -60 percent, Furshet management -30 percent, independent investor - 10 percent) will start development of shopping malls in Ukraine.

Auchan's market entry is the first western chain entry after Metro Group AG seven years ago.

The four Auchan stores in Kiev and four in other regions so far are quite successful. The chain management claims that products are offered for sale with 15 percent price discount to other chains; suppliers are not charged any marketing cost and paid within two weeks after the product is sold.

Some smaller M&A deals in retail industry have concluded. The financial indicators show that nowadays it is clearly a buyer's market. Expensive mergers and acquisitions of 2005-08 are in the past. Unable to find strategic or portfolio investors some retailers went bankrupt. O'key-Ukraine Chain (owned by the Expert Capital SA, Luxembourg) went bankrupt in early 2009 leaving hundreds of suppliers unpaid. Auchan Group used the opportunity for further expansion. It purchased equipment and one attractive location of a bankrupt retailer. O'key-Ukraine restructured approximately UAH 400 million (\$50 million) of its debts to banks and suppliers with another over UAH 100 million (\$12.5 million) of unpaid debt.

Two other international retailers saw a silver lining in the cloud of Ukraine's crisis. German Metro Group launched Real supermarket chain in Southern Ukraine. Austrian Billa probably is not interested in big-scale M&As, but is quickly developing a local network buying separate locations from local chains.

In 2011 financial hardships made diversified business holding company Rainford based in central Ukraine to rid of their retail division. Rainford Chain was split in two and sold to Omega (Varus Chain) and Fozzy Group (Silpo, Fora, Fozzy Chains). In 2010 Polish Arbis Capital Partners Investment Fund acquired western Ukrainian chain Torgovyi Svit.

In 2009 some supermarket chains defaulted on their obligations to local investors. Karavan Ltd. (Karavan TM) in March of 2009 announced default on coupon and principal of local bonds in circulation for UAH 160 million (\$20 million). Investors allege that the chain attempted to move assets to a different company leaving an empty shell company responsible for the debt.

At the end of 2008 the Midland Group sold its retail business to one of the distributing companies. The MD Retail chain of 47 grocery shops in eastern Ukraine was sold for approximately \$20 million. The new owner (Ns Ltd.) announced an ambitious expansion program, but did not settle disagreements over this acquisition by early 2010. Intermarket Ltd. (Arsen chain) was acquired by rival Eurotech Group (EcoMarket chain) in spring of 2009. Troubled Intermarket lost their Barvinok grocery chain in 2008, but was not able to manage excessive debt of over \$21 million on the remaining facilities. According to market analysts the Eurotech did not do very well itself, but managed to attract an external loan from Horizon Capital Fund. Many believe that owners were not able to benefit from the deal.

### **Retail in Post-Crisis Period**

Caught in the middle of rapid expansion programs many Ukrainian retailers were not able to service bank loans or to pay their suppliers. Many business growth strategies did not foresee the financial or economic downturn and retailers had no backup plans. Significant problems started in early 2008, when financial resources became scarce and very expensive due to a National Bank of Ukraine policy change. The values of the UAH is about half of what it was in the fall of 2009, so dollar denominated loans became significantly more expensive to repay. The UAH devaluation has brought unwelcome consequences for chains, which expanded based on finances that changed radically in 2008 or 2009. The burden was so significant that many retailers started a strategic investors search offering controlling-share acquisitions. Limited in financial resources small Ukrainian grocery store chains were the first to suffer. Some companies decided to keep control over their business and proposed only minor shares to

address current liquidity problems. Many nation-wide chains are looking for financial support of this type.

Despite very pessimistic forecasts announced by industry experts, the majority of retailers managed to restructure their debt to keep their companies afloat. Chains conducted big cost cutting programs, reviewed assortment, contracts with suppliers and operational procedures. Major lenders had no other option but to agree on debt restructuring to avoid greater losses. Bankruptcies of major chains would result in significant losses due to multiple loopholes in bankruptcy legislation and a corrupt judicial system in Ukraine. Besides, banks were interested in keeping chains as clients with good cash flows. In the past many banks attracted syndicated loans from abroad to finance Ukrainian retail. Throughout 2010-11 foreign banks were rather flexible in debt restructuring issues receiving massive support from their governments. Banks were so cooperative that many chains started withdrawals of their initial shares offers.

Many believe that debt restructuring of 2009-11 only postponed the problems of the industry, rather than resolving them. Problems of major chains may continue in 2011-12 should the second wave of economic crisis in Ukraine arrive.



Crisis developments have already led to significant payment delays to food producers and importers. Even before the crisis many suppliers complained about contract terms that allowed for late payments (sometimes 60-90 days). For this reason many producers used distributors or limited their cooperation with Ukrainian retail. Now payment delays extended to 150-180 days. This way chains are trying to collect some extra cash to insure timely loan payments. Some importers are seeking justice in Ukraine's court system, some stopped supplies to the chains, but the vast majority gave up and agreed on new discriminatory payment terms.

The Crisis decreased the volume of imported food and led to a renaissance of the open-market

and traditional grocery trade (per the growing gap between red and blue lines in the graph above) which recovered much faster. Significant contraction of external financing (no new bank loans or IPOs) will significantly restrain industry growth in the next couple of years. Some favorable factors like a drop in rental costs and general food price decreases will not offset the drop in consumer income. Some regional chains will not survive and will be forced to sell their business to bigger market players.

## Major Retail Trends

Despite crisis developments some industry experts estimate the retail sector growth in 2011 to be 10-11 percent, taking into account street retail trade and sales of meat, fruits and vegetables in open-air markets (bazaars), which are not included in official statistics.

**Table 1. Wholesale Trade Turnover\* (Million USD\*\*)**

	2005	2006	2007	2008	2009	2010
Total Wholesale Trade Turnover	99742	132124	171066	199694	110522	132216
Including						
Food	15440	20453	26036	29487	21604	24445
Nonfood products	84303	111671	145029	170208	88918	107771
Share in Turnover, percent	19.5	19.8	19.8	19.0	12.8	12.6
Including						
Food	3.0	3.1	3.0	2.8	2.5	2.3
Nonfood products	16.5	16.7	16.8	16.2	10.3	10.3
Share of domestically produced products, percent	13.7	12.9	12.4	12.0	8.2	8.0
Including						
Food	15.3	15.0	14.9	14.2	9.6	9.5
Nonfood products	13.3	12.6	12.0	11.6	7.9	7.7

Source: State Statistics Committee of Ukraine

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

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

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

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

country although some experts give them significantly higher share.

Despite current sluggish development of the big retail formats, hyper- and supermarkets are expected to account for 50 percent of retail food sales by 2013; chain convenience stores/discounters will capture 20-30 percent share, open-air markets 15 percent, soviet style stores (groceries, over-the-counter trade stores) 10-15 percent, and other outlets 10 percent.

"La Furshet" supermarket chain is a good example to demonstrate the rapid growth of the industry. La Furshet consisted of 15 outlets in 2002 reaching 117 by December 2011 (eight times growth in nine years). The payback period for the average retail outlet is five to seven years in Ukraine (for 2009) compared to 10-15 years in EU countries. In 2006, some large chains began CAP software installation to optimize logistics and promotion programs.

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

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

Ukraine is one of the most populated countries in Europe with over 45 million people. A steady increase in personal incomes before 2008 has had a positive impact on the development of the retail sector (an increase of 25 percent in 2008). Per capita income growth rates and the growth in the retail sector coincided. Over the past eight years, only three large European retailers (Billa, Metro and Auchan) entered the Ukrainian market to benefit from the strong growth. Usually, retailers enter markets in large urban areas, followed by expansion into smaller cities and towns. Although local supermarket chains still outpace foreign companies in terms of the number of outlets, foreign outlets have much better logistics, tested market-entry strategies, excellent personnel-training techniques, well-established connections to suppliers and solid financial support. All these lead to a situation when three western companies are responsible for over 40 percent of Ukraine's organized large scale retail market.

### **Advantages and Problems for US Exporters**

<b>Advantages</b>	<b>Problems</b>
Population of 45.7 million people; a number of consumers can afford purchasing high-quality food products	Due to economic crisis and erosion of incomes, majority of consumers continue to save money on food or rely on home produced foodstuffs.
Demand for higher quality food products is growing.	Volume of sales of higher quality food products is expected to shrink.
Ukraine's retail sector is on the rise, which creates a number of opportunities for prospective U.S. exporters.	Frequently changing trade legislation and policies often impact trade. Import tariffs were lowered by WTO accession but



	threatened with hikes "to protect Balance of Trade."
Urban life style changes increase demand for semi-finished and ready-to-cook products	Rapid development of local manufacturers of ready-to-cook products creates tough competition for similar imported goods
American-made food and drinks are still new for the majority of the population, but rather popular among the younger generation;	Growing number of domestically produced generic products; lack of knowledge of American products
In general retailers are open to new products in order to attract customers	Strong competition with suppliers of similar products from Russia and European Union
Existence of large importers experienced in importing food products to Ukraine	Difficulties in finding a reliable partner or distributor

## SECTION II. ROADMAP FOR MARKET ENTRY

### ENTRY STRATEGY

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

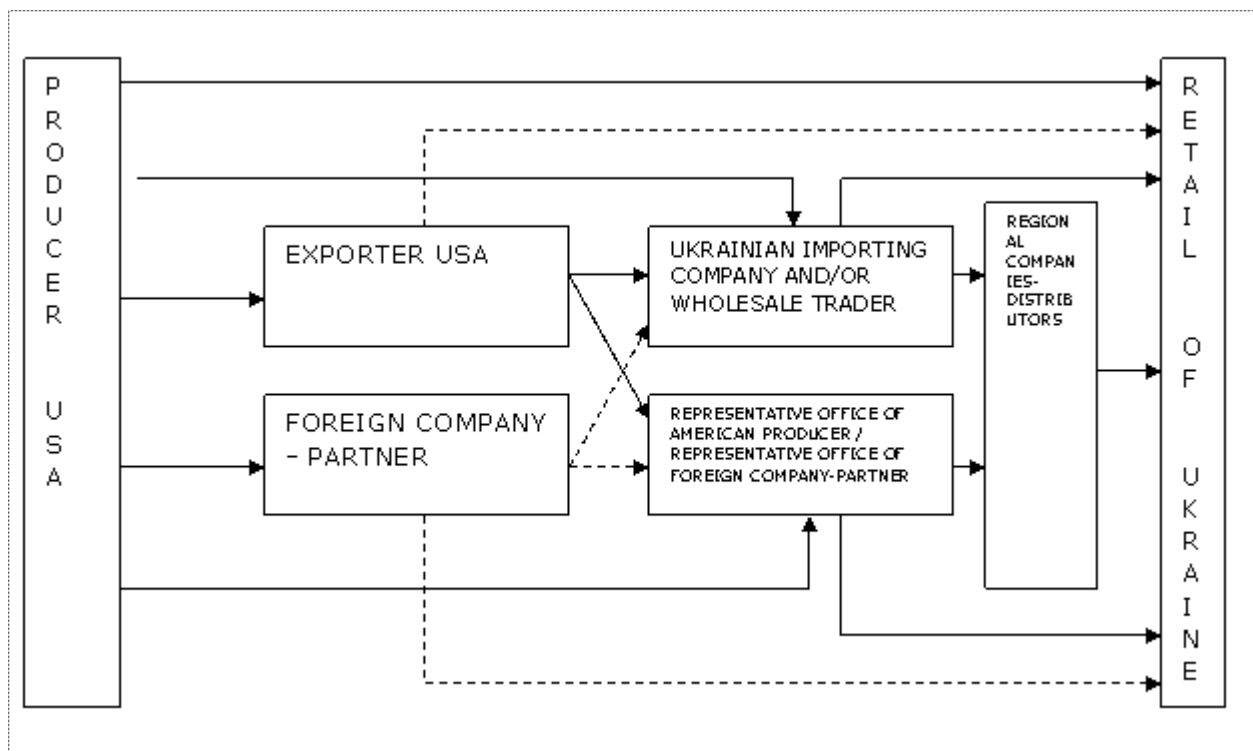
- A prospective entrant is advised to estimate market perspectives of the product with respect to consumer preferences and incomes, local competition and sales channels (marketing research from a specialized consulting firm may be required).
- A visit to a food product fair in Ukraine may be very helpful. These events can provide a market snapshot, as well as identify prospective importers and wholesale vendors. Usually only large companies participate in these fairs.
- Meetings with representatives of state regulatory bodies in order to obtain additional information on import requirements. Companies can consult the Foreign Agricultural Service and Foreign Commercial Service, business consultants, and foreign partner companies already doing business in Ukraine.
- In order to make the first delivery, usually a large local import company is chosen. The company should have a good reputation and experience in customs clearance, and must have storage facilities and a developed distribution network. Make sure the company has experience working with Western suppliers and has experience in arranging regular supplies of food products. Western companies that strive to supply directly, circumventing Ukrainian mediators, often sustain losses due to lack of local market knowledge. A large domestic import company is usually better adjusted to local conditions, with established trade ties and contacts in state structures. Ukraine remains a country where personal contacts play an important role in business.
- Should the exporting company decide to open a representative office, it should be located in Kyiv, where government authorities are concentrated. Other large cities may also be considered.
- Ukrainian import duty rates for food products are very uneven. Import duties for unprocessed goods or goods in large packages are often zero. Often these commodities require only minimal processing (frying, adding salt, and packaging for retail trade). Duties for packaged and ready for sale products are higher. Many companies test the market with finished products, and then look to process and package locally if the product is a success. This way they manage to reduce custom clearance costs. Many importers package tea, muesli, chocolates, chips, roast nuts and coffee beans in

Ukraine. Packaging or production is often conducted in Russia or other Commonwealth of Independent States (CIS) countries. The commodity can be imported from these countries under Free Trade Agreements (FTA). FTAs are in place for 11 CIS countries. However, a potential importer should weigh transportation and certification costs.

- 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 would amount to approximately \$100-250 each. Some payments are made once, and others are monthly charges. The exporter should be ready to pay the retailer a percentage of the trade turnover (calculated from sales or per 1 meter of shelf space). These payments are also made on monthly, quarterly or annual basis. There will be some payments associated with retail chain marketing costs, advertising booklets and in-store promotion actions. The total sum for all services and fees will range from \$1,000 to \$1,500, per commodity per store. All fees are negotiable and depend on a product type.

## MARKET STRUCTURE

### Food Retail Distribution Channels



### Distribution Channels

The vast majority of importers/distributors have offices in Kyiv or in the large Black Sea port of Odessa. Portside offices are often used solely for customs clearance procedures. Following arrival at port, the product is then shipped to Kyiv. From Kyiv the consignment is then distributed to the regions or directly delivered to regional distributors. Some importing

companies purchase goods on CIP Kyiv terms and then customs clear in Kyiv. Truck deliveries from Western European ports are much more expensive and rarely practiced. Typically large importers supply a number of commodities to Ukraine. Some companies have exclusive contracts for distribution of food products in Ukraine; however there are cases of several distributors having the right to distribute a single product. Often Ukrainian representative offices finalize agreements to be the exclusive supplier of goods to certain regional distributors. Retailers can cancel a direct supply contract with the representative office when it is unprofitable for a regional distributor to supply the retailer. There are several companies in Ukraine that pretend to be national distributors capable of regular deliveries of goods to retail trade companies all over Ukraine, however, these companies don't have such an efficient or far reaching distribution system.

### **Types of Retailers**

As reported by the State Statistics Committee of Ukraine, the number of retail trade outlets exceeded 48,000 by 2011. Over the past few years, the number of retailers was on the decline (three to five percent annually), while the average floor space increased 4-7 percent annually. Many small food shops continue to go out of business.

Due to the quickly growing number of super- and hypermarkets in 2001-2009, experts estimate their market share at 43 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**

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

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

The average floor space of a Ukrainian supermarket grew from 822 square meters in 2005 to 914 square meters in 2007 and 1200 square meters in 2009. The first Ukrainian mall – "Karavan" (is still classified as hypermarket by the State Statistics Committee) was built in Ukraine in 2004 with a total area of 13,000 square meters and total floor space of 8,000 square

meters. The small floor space of many Ukrainian supermarkets is a result of limited capital and limited availability of buildings or land plots in proper locations suitable for such operations. Only Western investors and very few Ukrainian companies are capable of full-scale construction projects from the ground up.

According to supermarket owners, stock lists of smaller stores include 30–70,000 items, with 80–90 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. 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).

**Table 2. Hypermarkets and Supermarkets Chains in Ukraine (2 or More Outlets)\***

<b>Retailer Name and Outlet Type</b>	<b>Ownership</b>	<b>Sales in 2008 million US dollars</b>	<b>No. of outlets as of 2011</b>	<b>Locations</b>	<b>Purchasing Agent Type</b>
Sil'po supermarket	Fozzy Group	Over 2.0 Billion in 2010	206	Nation -wide	Direct/importer
Fozzy, C&C			5	Nation -wide	
Metro, C&C	Metro Cash and Carry (“Metro AG” Germany)	~1.4 billion in 2009	26	Nation-wide	Direct/importer
Metro Basa			4		
Furshet,	LLC Garantiya -	~0.9 billion	117	Nation-wide	Direct/wholesaler

supermarket	Trade	in 2007			/importer
Auchan	Auchan Group (France) and Furshet JV	n/a	8	Nation-wide	Direct/importer
Velyka Kishenya, supermarket	Retail Group Holding	~ 560 million in 2009	~63	Nation-wide	Direct/importer
Amstor	Midland Resources Holding Ltd	~600 in 2008	24	Eastern Ukraine	Direct/importer
Tavriya-V,	Tavriya-V LLC	n/a	34	Southern/Central Ukraine	Wholesaler/Direct/importer
Billa, supermarket	Billa-Ukraine (Reve Group Austria,)	n/a	21	Nation-wide	Direct/importer
PAKKO, supermarkets	Pakko Corp.	300 million in 2008	87+10	Western Ukraine	Direct/importer
Vopak, C&C					
Nash Kraj	Own stores of VolWest Group and Franchisees	55.9 million in 2009	65	Nation Wide	Direct/importer
Perekrestok-Ukraine	X5 Retail Group (Russia)	n/a	8	Central Ukraine	Direct/importer/wholesaler
Novus	BT Invest (Lithuania)	n/a	18	Nation Wide	Direct/importer/wholesaler
ECO-Market supermarket	Bayadera Ltd.	n/a	82	Nation Wide	wholesaler/direct/importer
Arsen	Eurotech Ltd.	119 million in 2009	7	Western Ukraine	wholesaler/direct
O'Fresh	Eurotech Ltd.	n/a	8	Nation Wide	wholesaler/direct
Colibris, Nash, 555	Avanta TD	n/a	47	Western Ukraine	Direct/importer
Varus	Omega Ltd.	140 million in 2010	14	Central Ukraine	Direct/importer
Target	Target	n/a	8	Kharkiv	Direct
Mega-Market, supermarket	Founder - Victor Yushkovskiy	n/a	6	Kyiv	Direct/importer
Kalss	Ukrtrade Ltd	n/a	7	Kharkiv	wholesaler/direct
Natalka-Market, supermarket	"Natalka-Market" CJSC	n/a	6	Odessa, Mykolaiv	wholesaler/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 cheap alcohol, cigarettes and a limited number of food products. Limited floor space (usually 8-25 square meters) and a relatively wide stock list (on the order of 100-200 kinds of goods), as well as minimal required

capital and operation costs ensures their existence. Competition from larger private stores and supermarkets that offered lower prices resulted in a reduction in the number of kiosks. They survive at road intersections, bus stops, underground stations, near open-air markets, in bedroom communities, and in rural areas. Kiosks offer a variety of the cheapest living essentials including food products. Lately, kiosks are becoming more specialized. For example, producers of meat and bakery products have opened kiosks to sell their own products near public transportation stops.

The number of modern gas stations continues to grow rapidly in Ukraine. Approximately 10-15 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.

**Table 3. Kiosks and Gas Stations in Ukraine (ths.)\***

	2001	2002	2003	2004	2005	2006	2007	2008
Number of kiosks (stalls)	24.1	22.5	21.5	20.2	19.4	18.9	19.6	19.7
Share of kiosks in convenience goods market, percent	8	7	6	5	3	2	2	3
Number of gas stations	4.4	4.7	5.1	5.2	5.5	5.9	6.3	-

*Source: State Statistics Committee of Ukraine*

### **Chain Convenience Stores and Self-service Groceries**

Chain grocery stores are not yet very common in Ukraine, although becoming more so. The shortage of suitable land plots makes many retailers consider smaller formats. The Fozzy Group is developing a network of Fora and Bumi-market grocery stores. According to management, the chain may slow down development of its Silpo supermarkets chain, but will not cut back on its Fora chain despite economic downturn. The Rainford group also has a network of 32 "convenience stores." Their competitor in the Dnipropetrivsk region, ATB Corporation, has a network of 372 stores, although these stores are quite close to supermarkets in size. Usually groceries are located in suburbs, offer a narrow product range and have limited floor space. These new groceries are quickly replacing the Soviet-style food stores. The average floor space varies from 300 to 500 square meters. Stock lists include an average of 1,500 to 3,500 items. Grocery outlets have become rather popular among pension-age consumers who prefer to shop close to home. Retirees often make small purchases throughout the week. These outlets also target consumers with below average incomes and who generally purchase goods daily. These products tend to have a short shelf life (bread, dairy products, fruits and vegetables, etc.). Market analysts note that convenience stores lack regular customers and their market share is small. Nevertheless, grocery stores are very successful in small Ukrainian towns.

**Table 4. The Largest Convenience Store Chains in Ukraine**

Chain Name	Owner/managing company	Type of the company	Trade outlet type	Number of outlets	Location
ATB	Corporation ATB (Ukraine) There are also discounters working under the same brand	Direct/wholesaler/importer	Convenience store	372	Nation-wide
Fora, Bumi	Fozzy Group (Ukraine)	Direct / importer	Grocery / Discounter	135	Nation-wide
Brusnytsia, Olivie, Varus	Ukrainian Retail	Direct / importer	Grocery / convenience	89	wholesaler/direct/importer
SPAR	Spar Ukraine Ltdd.	Wholesaler / importer	Grocery / Convenience store	32	Eastern and Central Ukraine
Econom+	TK Econom Plus Ltd.	Direct / importer	Convenience store	30	Zaporizhia
Absolute	PKF Lia Ltd.	Wholesaler/Direct	Convenience store	33	Central and Southern Ukraine
Barvinok	Abris Capital Partners (Poland)	Wholesaler/direct/importer	Grocery	41	Western Ukraine
Bi Market	Bimarket Ltd.		Convenience Store	16	Kiev
Torgovyi Svit	Roveks	Wholesaler/direct/importer	Grocery	17	Western Ukraine
Rukavychka	Lvivholod	Direct / importer	Grocery	46	Western Ukraine
Plus	RBB Group Ltd.	Direct / importer		39	Central Ukraine
Mars	Trade House Mars	Wholesaler/direct/importer	Grocery	14	Eastern Ukraine
Natalka Market	Natalka Trade	Wholesaler/direct/importer	Grocery	7	South Ukraine
Obzhora	Obzhora Chain	Wholesaler/importer	Grocery	15	Odessa Region
Kopeyka	Vit Almi LLC (Ukraine)	Wholesaler/importer	Convenience store	26	Odessa Region

*\*Sources: Company information, open press, FAS Estimates*

### **Traditional Outlets: Independent Grocery Stores and Open-Air Markets**

Soviet-style stores with behind-the-counter sales (traditional groceries) are quite common in Ukraine. Some of these groceries are situated in central districts selling food products to office employees during the workweek and to a small number of urbanites. These stores have often been taken over by chain convenience store companies and converted into modern self-service convenience stores. Other traditional grocery stores survived in suburban communities in large cities. These stores are likely to leave the market due to fierce competition with supermarkets

and modern convenience stores. They are losing clientele due to their limited product line, higher prices, poor customer service, and unprofessional vendors. In order to survive, many offer round-the-clock operations and lease some floor space to sellers of industrial goods (DVD and CD sales) and services (photo development). Some are operating successfully in distant small districts of large cities and small provincial towns where the construction of supermarkets or modern chain convenience stores is economically unjustified.

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

As reported by the State Statistics Committee of Ukraine, there were 2,785 open-air markets (bazaars) of all types in Ukraine in 2009, including almost 500 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 55 percent of the total number of markets of all types in Ukraine. The largest number of food product open-air markets in Ukraine are concentrated in the most populated regions. Typical Ukrainian open-air markets would include a space for farmers, while behind-the-counter kiosks sell packed and processed products. The open-air market kiosks zone would trade in low and middle cost products. Many people think that food products in traditional open-air markets are cheaper than in supermarkets. Elderly consumers are also confident in the high quality of products offered at these wholesale open-air markets.

According to experts' estimates, in 2009, approximately 20 percent of food products in Ukraine were sold through this channel. 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.

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



**Table 5. Number of Markets (bazaars) Offering Consumer Goods in Ukraine**

Year	Number of Open-Air Markets	Number of stalls	Specialization			Area, 1000 sq. m.		Number of Employees
			Food	Nonfood	Mixed	Total	Trade	
2005	2886	931379	502	719	1665	21058	14553	36063
2006	2890	927016	498	736	1656	21150	14698	35247
2007	2834	909498	477	712	1645	21204	14757	34146
2008	2785	904917	425	705	1655	21164	14554	32776
2009	2761	893572	398	689	1674	21674	14262	31088
2010	2758	886299	407	699	1652	21471	13764	31748

*Source: State Statistics Committee of Ukraine*

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

## **MARKET TRENDS**

### **Private Label**

Over the last two years all nation-wide retail chains developed their own private-label programs. In most cases chains offer cheap and mid-price products in fruit juice, canned vegetables, dry fruits, grocery, frozen dumplings and seafood product groups. Many chains sell products produced on their own premises (mostly frozen products) that are not clearly labeled as the supermarket’s private label or sold as no-name white label products. Own ready-to-eat products produced on sites are also not “private-labeled”.

Most chains sell only food private labels. In 2008 Metro C&C Ukraine also launched its “H-Line” label with over 60 food and non-food items. By 2011 the PL line includes ARO, Horeca Select, Fine Food, Rioba. Silpo Chain has offered some non-food items under “Premia,” “Premia-Select” and “Povna Chasha” private label. Own PL are also launched by major chains: Furshet, ATB, EcoMarket and Velyka Lyshenia. The price difference compared to branded competitors is 5 percent - 20 percent less.

Retailers see having a private label as a means to exclude of third party distributors from the logistics chain as well as a means to minimize promotion costs. Some cost is also saved during the bidding process when a supplier is chosen. It is too early to estimate the success of private-label programs in Ukraine since they are relatively new and coincide with significant changes in loyalty programs run by many big chains. Common for the western markets reliance on grocery items for private-label program is not evident in Ukraine. Private label bundles are quite diverse and do not coincide from chain to chain.

### **Modern Trade Promotion Methods**

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

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

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

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

## **Market Power**

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

## **SECTION III. COMPETITION**

The Government of Ukraine took a number of steps to protect domestic producers of food products in the mid-1990s. This resulted in high import tariffs and a complicated system of sanitary and phytosanitary requirements. The economic crisis of 1998 abruptly decreased

individual incomes and drove consumers to purchase cheaper domestically produced products. All of these factors contributed to the robust development of the domestic food-products industry. Production of dairy and meat products (sausages, smoked foods), soft drinks, mineral water, juices, beer, confectionery, various appetizers, and chilled chicken meat is still on the increase. Introduction of high import duties made legal imports of many foreign food products unprofitable, while the Ukrainian market remained open to food products originating in Russia and other CIS countries. The Free Trade Agreement among CIS countries facilitated trade. Russian-made products were charged only the value-added tax, which make their price comparable to similar Ukrainian products. Many imports from the EU and the United States cannot compete on price with CIS goods.

**Table 6. Main Delivery Sources and Volumes of Specific Product Imports to Ukraine**

Product Category	Major Supply Sources	Strength of Key Supplying Countries	Advantages and Disadvantages of Local Suppliers
Poultry Net Imports: 155 ths. tons US 88 ths. tons	1. USA 57 percent 2. Germany 8 percent 3. Belgium 8 percent	USA MDM and offal is much cheaper; Brazilians have price advantage in whole birds supplies, EU in geographical proximity	Production is rapidly growing. Producers can supply chilled product; supply of domestic chicken is insufficient.
Pork Net Imports: 113 ths. tons US 7 ths. tons	Brazil 35 percent Poland 29 percent Germany 15 percent	Much lower prices, stable quality	Highly inefficient pork production in private households and in majority of industrial farms; Some production rebound in 2006 based on renewed technologies.
Beef Net Imports: 2 ths. tons US – No Supplies	Brazil 70 percent	Much lower prices, stable quality	Highly inefficient beef production in private households and on industrial farms, lack of beef cattle and lack of high-quality beef
Fish and Seafood Net Imports: 468 ths. tons US 17 ths. tons	Norway 34 percent Estonia 8 percent Iceland 10 percent	Norway supplies a wide range of products and secures regular deliveries. Norwegian exporters use state promotion programs	Outdated cold storage facilities and fleet, outmoded processing facilities, problems with securing quotas for fishing in international waters
Fresh vegetables Net Imports: 20 ths. tons US 0. ths. Tons	Netherlands 29 percent Spain 27 percent Poland 12 percent	High stable quality of vegetables produced in Western European countries, low prices for the products originated from the	A lot of people grow vegetables on their household plots; Bigger farms lack modern storage and processing facilities; stable supplies

			CIS states	of the produce to the retail trade networks are complicated
Frozen vegetables	Poland 71 percent		Polish companies dominate on the market due to high quality, recognition of trademarks and distribution system	Inefficient production; growing demand in large cities
Net Imports: 5 ths. tons	Hungary 20 percent			
US 0 ths. tons				
Snack food	Poland 71 percent		Countries of South America, Spain, Georgia, and Azerbaijan supply citrus fruits at right price/quality ratio	Essential volume of smuggling especially from Poland and the CIS states as well as lack of storage facilities; low cost of local production
Net Imports: 50 ths. tons	Russia 9 percent			
US 1 ths. tons				
Tree nuts (peanuts excluded)	Turkey 19 percent		Turkey mainly supplies hazelnut and pistachios at low prices, Azerbaijan – hazelnut, and the USA - almonds	Lack of large-scale industrial production of nuts; Intensively developing confectionery industry
Net Imports: 7 ths. tons	Iran 18 percent			
US 1 ths. tons	USA 15 percent			
Fruit and vegetables juices and concentrates	Brazil 24 percent		Western countries supply products of very high quality. Russian products are of low price and good quality	Local production of apple concentrate, tomato paste, and berries partially satisfy domestic demand; high dependence on imported concentrates; High competition with ready-made Russian juice; growing demand for juices, healthy drink image of juice
Net Imports: 41 ths. tons	Netherlands 17 percent			
US 112 tons	Moldova 12 percent			
Wine and Beer	Moldova 34 percent		CIS origin wine is reasonably priced and has traditional brands. Western Wines are occupy the upper segment and perceived as high quality ones	Steady demand for locally produced wines; production experience; broad assortment and low prices; poor positioning of high quality vintage wines; traditional preference to sweetened wines
Net Imports: 59 million liters	Russia 22 percent			
US 33 ths. liters	Georgia 10 percent			
Pet food	Poland 28 percent		Exports of well-known pet food trademarks from Russia dominate in low segment. U.S. brands are perceived as high quality ones	Traditionally high number of home pets, large market potential; low demand for industrially produced pet food
Net Imports: 133 ths. tons	Hungary 21 percent			
US 6 ths. tons	Russia 14 percent			

Sources: State Statistics Committee of Ukraine, expert estimates

## SECTION IV. BEST PRODUCT PROSPECTS

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

Product	2010 Market volume	2010 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
<b>Poultry</b>	924 ths. tons	144 ths. Tons	~30 percent drop	5-15 percent for poultry parts and whole birds;	Competition with Brazilian and EU producers; Quick growth of domestic production; Perception of U.S. product as cheap and of low quality.	U.S. product has well-established positions; Low prices attract a lot of buyers. Local producers will not be able to satisfy demand in near future.
<b>Beef</b>	115 ths. tons	4 ths. Tons	No change	15 percent	Consumer unawareness of U.S. high quality beef; Sizable domestic production, Complicated import procedures.	Insignificant specialized beef production; Constantly growing beef prices; Niche markets for meat delicacies (steak, etc.) and meat offal; Fast HRI development.
<b>Pork</b>	284 ths. tons	112 ths. tons	Over 30 percent	10-12 percent	Competition from Brazilian pork and Polish smuggled pork, complicated import procedures.	Shortage of pork in the country; declining production; high prices; Demand for stable deliveries of both cheap and high quality

						product.
<b>Fish and Seafood</b>	613 ths. tons	468 ths. Tons	10-20 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; Very modest assortment in markets; Significant demand from supermarkets and HRI sector.
<b>Dried fruits and nuts (exclude. peanuts)</b>	50 ths. tons	8.1 ths. tones	20-30 percent	From 0 percent to 20 percent	Sharp competition with Iran and Turkey. Desire of packers to save on raw stock, procuring low quality stock from Iran, Uzbekistan, and Afghanistan	Intensive development of confectionery industry and start of retail sales of rare dried fruits (exceed world prices by 3 – 6 times). High quality of U.S. product; Development of premium-class confectionery products
<b>Wine</b>	64 million deciliters	33 million liters	Contracted by 15 percent	Significantly Varies by product	High import duties, tough competition with Ukrainian-made spirits and drinks produced in the CIS states	Relatively high level of alcohol consumption; Demand for exotic drinks (whiskey, gin, rum, bourbon).
<b>Pet food</b>	N/a	133 ths. tons	20-30 percent	5-10 percent	Large supply of Russian-made cheap pet food; Smuggling; Strong tradition of feeding pets with table scraps; Long registration and certification procedures.	Traditionally large number of home pets; Increased population incomes followed by growing demand for ready to use pet food. Comparatively

						low import duty
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\* 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, fillet, etc.), smoked meat, cheese;
- Exotic seafood, ready-made high-quality canned fish;
- Cereals: muesli, instant porridge, ready-made rice, different sorts of ready-made packed rice;
- Food for diabetics;
- Specialized infant food, canned vegetables and infant fruit food;
- Exotic drinks/juices (from exotic fruits, energy drinks, vitamin drinks, root beer), drink concentrate, traditional drinks with different additives (tea/hot chocolate with additives);
- Semi-prepared goods, ready-made frozen food, microwaveable food;
- Packed food ingredients of high quality for cooking (brown sugar, sugar powder, high-quality spices, etc.)
- High-quality beer snacks (a rapid increase in beer consumption over the last several years and stable forecasts regarding beer consumption growth in the future).
- The future aging of the population creates a niche market for this category of costumers. The low current incomes of this category make this market profitable only in the future.

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

- Mid range ready-to-eat meat products (smoked meat, sausages, hotdogs) – high import duties (30 percent, but not less than 1.2 EUR/kg + 20 percent VAT) – high competition of similar Ukrainian products;
- Inexpensive imported chocolates - high import duties (0.5 EUR/kg + 20 percent VAT) – high competition from similar Ukrainian products;
- Food products containing biotech ingredients which are not yet on the state registry of biotech approved events. Labeling of such was introduced at the end of 2009 and scheduled for implementation in 2010.

## **SECTION V. ATTACHMENTS**

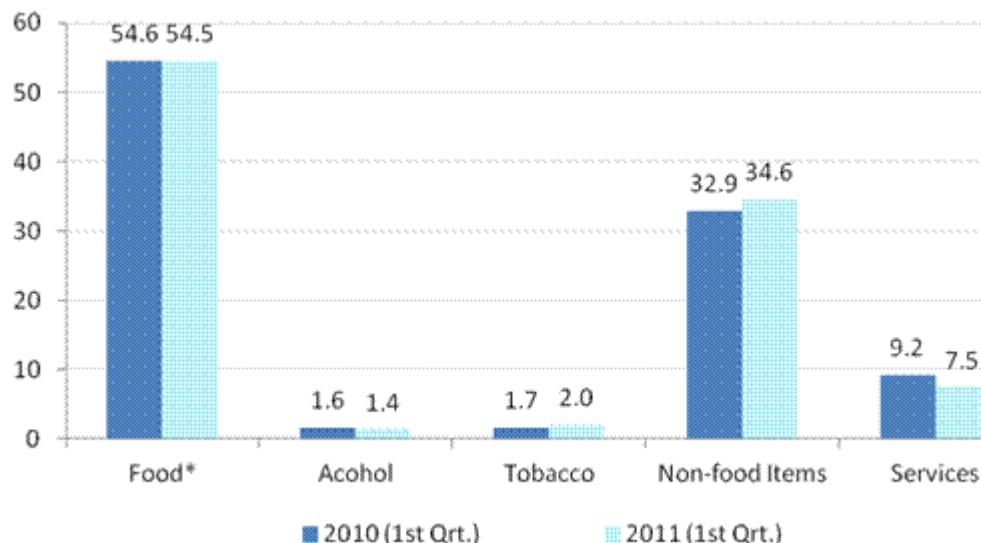
### **Annual Foodstuffs Sales in Retail Trade (1000 Tones)**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Meat and products	325	389	443	453	420	452
Butter	32	35	36	36	31	31
Vegetable oil	66	77	91	102	109	122
Cheese and soft cheese	42	51	63	71	67	67
Eggs, million	1341	1649	1791	2194	1986	2233
Sugar	129	130	155	177	190	143
Conditerey	225	252	275	288	254	268
Tea	7	9	12	13	12	11
Bear and products (in wheat flour equivalent)	953	952	948	933	845	807
Potato	78	76	91	101	99	93

Vegetables	151	183	205	210	247	253
Fruits and berries and nuts	148	203	230	237	254	332

Source: State Statistics Committee of Ukraine

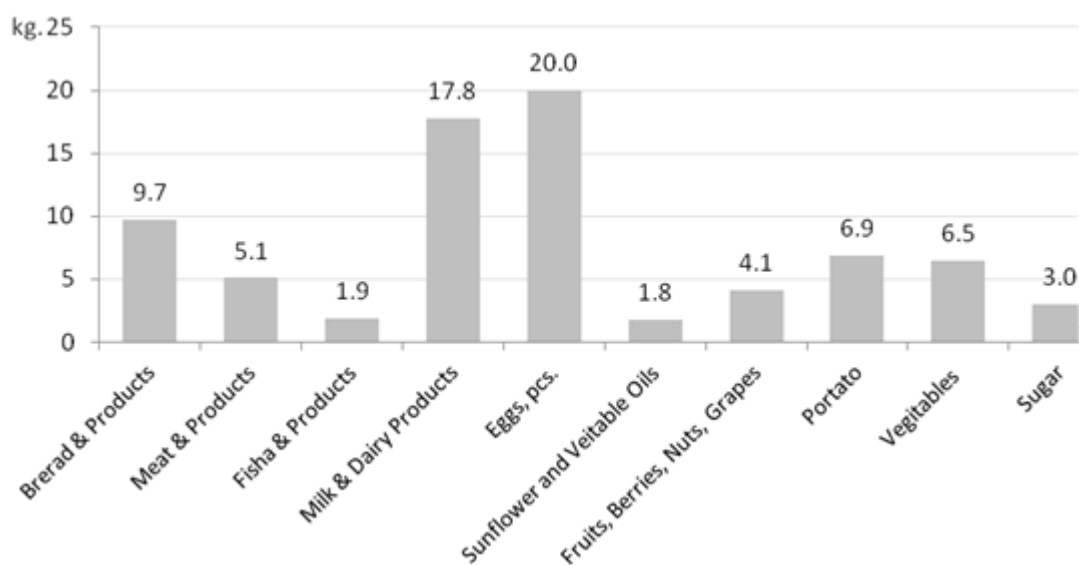
### Ukrainian Households Income Distribution (in percent)



\* Including Eating Out

Source: State Statistics Committee of Ukraine

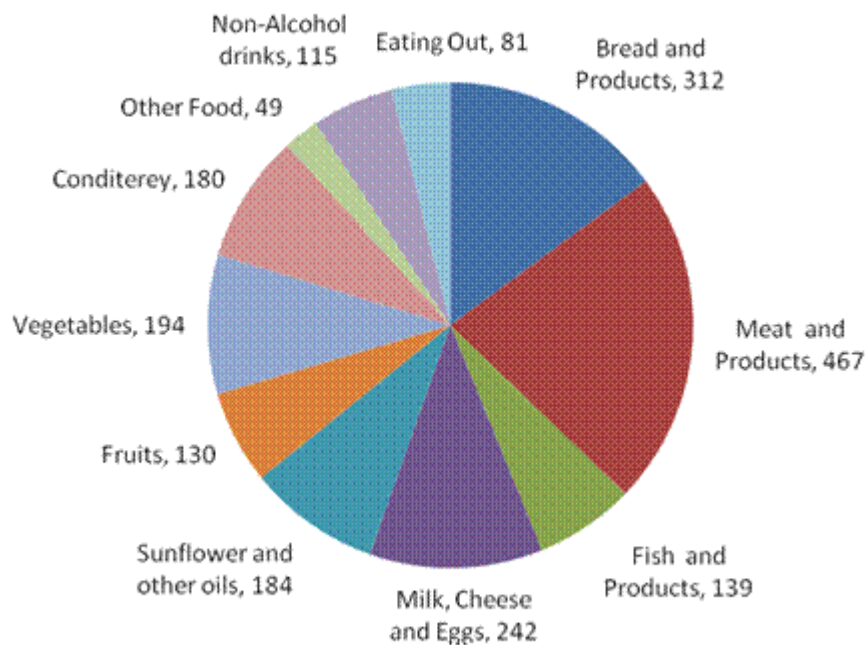
### Per capita Food Consumption (1<sup>st</sup> Qtr. of 2011)



Source: State Statistics Committee of Ukraine

**2010 Annual Foodstuffs Consumption by an Average Household\* of 2,59 person  
(in U.S. \$) Total - \$2,092**





Source: Households Income Survey, State Statistics Committee of Ukraine;  
Total number of households in Ukraine 17,050.3 ths.

#### Sales of Major Food Product Through the Retail Sector in 2009-10

Food Product	Volume	Sales		2009 percent to 2010
		2009	2010	
Meat, poultry and fresh frozen	1000 T	715.8	819.4	114
Meat, smoked and salted meats	"	733.9	842.1	115
Canned, prepared meat products	"	105.3	115.8	110
including semi-finished meat	"	8.2	6.0	73
Fish and seafood	"	338.8	416.2	123
Canned, ready to eat fish products	"	139.8	163.4	117
including semi-finished	"	520.5	686.6	132
Ice cream	"	71.8	95.6	133
Hard cheese, soft and melted cheese	"	324.3	409.8	126
Butter	"	135.0	179.3	133
Eggs and egg products	Million pcs.	143.5	168.0	117
Oils and Fats	1000 T	152.4	186.4	122
Margarine	"	47.2	42.7	90
Sugar	"	124.3	156.9	126
Confectionery sugar	"	851.7	1068.3	125
Flour	"	67.0	68.7	102
Bakery products (except confectionery)	"	337.7	380.0	113
Groats and Beans	"	131.2	170.3	130
Noodles	"	125.9	132.9	106

Potatoes	"	58.7	68.8	117
Vegetable	"	204.1	281.9	138
Fruits, berries, grapes, nuts	"	335.0	457.9	137
Watermelons and Melons	"	135.3	144.3	107
Canned vegetables	"	41.8	44.4	106
Canned fruit and juice	"	2212.6	2503.5	113
Vodka and other spirits products	1000 decalitres	851.9	972.1	114
Alcohols	decalitres	101.2	110.1	109
Wines	"	384.7	409.0	106
Brandy	"	236.3	276.9	117
Sparkling wine (champagne)	"	151.5	165.0	109
Beer	"	487.0	570.3	117
Tea	1000 tones	142.1	165.0	116
Coffee	"	211.3	259.6	123
Sault	"	9.9	9.6	97
Soft drinks	decalitres	392.7	431.2	110
Mineral water	"	191.8	231.7	121
Tobacco	million pcs	1205.4	1578.8	131
Other food Products		607.6	728.4	120
<b>Total Food Products</b>		11863.2	14234.1	120
<b>Food Products in Stores and Supermarkets</b>		10822.6	13013.5	120

Source: State Statistics Committee of Ukraine