Voluntary Report – Voluntary - Public Distribution

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Report Name: Retail Foods

Country: Ukraine

Post: Kyiv

Report Category: Agricultural Situation

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Report Highlights:

Ukraine is a developing country with a market-oriented economy. Following several years of recovery from the 2014 – 2015 economic crisis, the retail food sector has recently demonstrated slow growth. Ukrainian citizens spend more than 50 percent of their income on food and beverages. However, the share of the average consumer's budget spent on food is decreasing as disposable incomes grow. In general, consumers choose to shop at supermarkets over traditional markets due to competitive prices and longer hours of operation. Supermarkets remain the most important shopping channel. Over 55 percent of consumers consider supermarkets to be the main type of stores for grocery shopping. Health-conscious consumption is a new trend in big cities, with more consumers looking for organic, gluten-free, lactose-free, and low sugar content products.

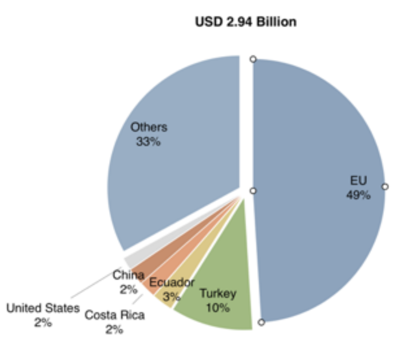
Market Fact Sheet: Ukraine

Executive Summary

Ukraine is a country with a lower middle income and with market-oriented economy. With rich farmland, a well-developed industrial base, a highly trained labor force of 17.3 million, and an adequate education system, Ukraine has the potential to become a major European economy and it is one of the world's largest grain exporters. In 2019, Ukrainian GDP reached $140 billion, positioning the country as the 56th economy in the world (IMF). It is the largest country located entirely in Europe with population of 41.8 million (ukrcensus.gov.ua). Currently, 51.4 percent of household expenditures are dedicated to food products. In 2019, imports of agricultural products reached $5.73 billion, an increase of 13 percent compared to 2018.

Imports of Consumer-Oriented Products

In 2019, Ukraine imported consumer-oriented agricultural products worth $2.94 billion; just under half (49 percent) of these originated from EU member states.



Food Processing Industry

Sales of domestically processed food and beverages totaled $19 billion in 2018, with the food processing industry responsible for 31 percent of total manufacturing. Small and medium size enterprises dominate the market, a few large processors are responsible for the majority of sales in the beer, soft drinks, hard liquors, condiments and confectionary industries.

Food Retail Industry

Independent stores continue to face strong competition from modern grocery retailers. Online food sales are showing slow growth. Ukrainian consumers are willing to try foods from other countries but expect quality products at a competitive price. Major multinational and local companies will continue to expand throughout Ukraine, improving their online platforms to capture more consumers via e-commerce and mobile applications to offer discounts tailored to each individual consumer.

Quick Facts CY 2019

Imports of Consumer-Oriented Products *(USD billion)* 2.94

List of Top Ag and Related Goods That Have Seen Gain

1) Seafood - Crab, Roe, Hake 2) Fish roe
3) Sunflower Seeds 4) Food Preparations
5) Distilled Spirits 6) Whiskey
7) Almonds 8) Beef

Food Industry by Channels (USD billion) 2019

Food Exports - Agricultural Products	22.153
Food Imports - Agricultural Products	5.728
Retail Trade Turnover (2018)	24.6
Food (Domestic market, 2018)	10.6

Top Ukrainian Retailers

Fozzy Group, ATB, Metro Cash & Carry, Auchan, MegaMarket, Novus, Billa

GDP/Population

Population *(millions)*: 41.8
GDP PPP (USD): 9,775
GDP *(billions USD)*: 140
GDP per capita *(USD)*: 3.592

Strengths/Weaknesses/Opportunities/Challenges

Strengths	Weaknesses
-Ukraine is one of the biggest markets in Eastern Europe. -U.S. products are viewed as high quality products by Ukrainians and are still new for the majority of the population.	-U.S. exporters face competition from tariff-free products from EU member states, the European Free Trade Association (EFTA) and the CIS partners.
Opportunities	**Threats**
- Ukraine's retail sector is recovering, providing a number of opportunities for prospective - U.S. exporters. -Import tariff levels for food products are comparatively low.	-Low-cost competition from the EU countries, Turkey, Asia, Canada - High trade risks due to political instability make imports of food products cumbersome.

Data and Information Sources:
Trade Data Monitor (TDM), International Monetary Fund (IMF), Ukr Sencus, World Bank, State Statistics Service of Ukraine

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SECTION I. MARKET SUMMARY

Ukraine is a country in the middle of a political and economic transition. Despite an economic downturn and a drop in sales in 2014, the market rebounded strongly in 2019. This recovery has been driven by economic stabilization and disposable income growth. For a general overview of Ukrainian economics, politics, legal and regulatory systems refer to the 2019 Investment Climate Statement and Ukraine Country Commercial Guide published by the U.S. Department of State and the U.S. Department of Commerce, respectively.

In 2019, Ukraine's imports of agricultural products reached U.S. $5.72 billion, an increase of 13.6 percent compared to 2018, while imports of consumer-oriented agricultural products totaled U.S. $2.94 billion in 2019, an increase of 21 percent compared to 2018.

After a dramatic decrease in Ukrainian food and agricultural product imports in 2014, the retail food market is now demonstrating slow, but steady, growth. Ukrainian citizens 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. During the economic crisis of 2014 and 2015 there were significant U.S. dollar to Ukrainian hryvna exchange rate fluctuations. Since 2016, the exchange rate has been relatively stable. Currently, the economy continues to grow at a moderate pace. However, it is almost impossible to make any future predictions due to the uncertainty because of the COVID-19 situation. Some experts estimate that Ukraine's economy may drop anywhere from 4% to 9%, if not more. The impact on the economy will depend on how much longer Ukraine and other countries will have quarantine in place.

Some big retailers reported that their online traffic has tripled since the beginning of the quarantine whilst demand for groceries delivery has increased even more and is expected to continue growing (in biggest cities of Ukraine: Kyiv, Dnipro, Lviv, Odesa, Kharkiv, Zaporizhzhia). Most retailers are hiring freelancers/part-time personal to meet the rapidly increasing demand of the market. Zakaz.ua reported an 18 percent increase of first-time customers alone from their online store. According to Zakaz.ua FMCG e-commerce doubled in 2019 in comparison to 2018: from $50 mil to $100 respectively. It is very likely that quarantine will encourage fuster development of e-commerce (FMCG segment). Also, this pandemic prompted a new collaboration of three big companies: one of the biggest retailers ATB which currently does not have its own online platform has teamed up with an online supermarket Rozetka to display its products via Rozetka's website and with local courier Nova Poshta to carry out deliveries. As of now, this format is being tested in Dnipro.

INDICATORS	2015	2016	2017	2018	2019
GDP (% Growth)	-9.7%	2.4%	2.5%	3.3%	3.6%
GDP per capita, PPP (USD)	7,972	8,289	8,693	9,233	9.775
Population Distribution: Urban/rural - %	69/31	69/31	69/31	69/31	69/31
Inflation (% Growth)	43.3%	12.4%	13.7%	9.8%	4.1%
Exchange rate (Hryvnas)	21.84	25.55	26.59	27.20	25.84
Agricultural and related total Imports from the world (Billions of USD)	3.48	3.88	4.29	5.03	5.72
Agricultural and related total Exports to the world (Billions of USD)	14.56	15.28	17.77	18.61	22.15
Ag and related total imports from the US (Billions of USD)	0.13	0.16	0.18	0.22	0.26
Ag and related total exports to the US (Billions of USD)	0.04	0.04	0.06	0.07	0.09
Consumer Oriented Products Imports from the U.S. (Billions of USD)	0.030	0.022	0.025	0.034	0.045
Consumer Oriented Products Exports to the U.S. (Billions of USD)	0.013	0.011	0.017	0.035	0.051
Total Imports from U.S. (Billions of USD)	1.48	1.68	2.52	2.96	3.28
Total Exports to U.S (Billions of USD)	0.48	0.42	0.83	1.11	0.97

Source: Trade Data Monitor, World Bank, National Bank of Ukraine, State Statistic Service of Ukraine

Retail food channels in Ukraine can be divided into 7 categories: small grocery stores, convenience stores, supermarkets, hypermarkets, gas marts, kiosks, and open-air markets. The retail environment in Ukraine is increasingly competitive. The retail channels are:

- *Small Grocery Store* – A retail outlet of less than 120 m^2 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 m^2 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.
- *Supermarkets* – Self-service grocery store offering a full line of groceries, meat, and produce. Three large supermarket chains dominate Ukrainian market. Large supermarket facilities are generally located in the outskirts of the major cities near major highways, in order to service multiple geographic locations. Smaller neighborhood supermarkets located in cities tend to carry many of the same goods at higher prices. Most supermarkets are open 7 days a week, some offering 24/7 service. Large food retail chains have their own purchasing or importing division to handle food imports. Major supermarkets are now importing directly from foreign suppliers to reduce costs. One of the leading Ukrainian retailers, Fozzy Group, operates several different formats: hypermarket Fozzy for wholesale and retail, supermarkets chain Silpo and Le Silpo (high-end segment), and convenience stores Fora and Bumi-Market. Fozzy Group are very strong on their private label as they developed several of their own brands from covering low-tier, middle-tier and high-tier price categories: Premiya, Premiya Select, Povna Chasha, Povna Charka, Zelena Krayina, Protex, EXTRA!. Fozzy Group also organizes their own annual craft beer festival BeerMaster and wine festival.
- *Hypermarkets* - A very large food and general merchandise store with over 2500 m^2 of selling space. The food-to-general merchandise sales ratio is close to 60/40. The biggest players which are present on the Ukrainian market are foreign investors such as Metro (Germany) and Auchan (France).
- *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 30m^2 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. In small towns or villages where retail chains are not very well presented, open-air markets remain popular. Naturally, in larger cities the share of retail sales made in open-air markets is smaller.
- *Specialty supermarkets* – high–end, self-service grocery stores offering a full line of high quality groceries, meat, and produce with a large portion of the products certified organic. Wine Bureau

owns three GoodWine stores which stand out from any other regular supermarkets in Ukraine, making organic, biodynamic, healthy, sustainable, and traceable food a priority. Wine Bureau imports around 4,000 types of wine from all over the world and around 1,000 spirits for retail sale in their GoodWine stores and for B2B clients. Wine Bureau's sales are showing stable growth. GoodWine already has their own wine bar, coffee shop, restaurant, sushi restaurant, bakery – all inside their store, and they are planning to expand. Besides organizing two annual festivals - Kyiv Wine in summer and Whisky Dram in fall, – GoodWine organizes various lectures, tastings, and master-classes.

It is difficult to estimate sales turnover in the open-air markets, as sales are not officially registered. In Kyiv, the official retail-to-open air market ratio is roughly 70/30. Overall, in Ukraine it could be closer to a 50/50 ratio. Although many consumers are very price sensitive, some are willing to pay extra for high quality and healthy (organic) products.

Trends in Distribution Channels

- E-commerce in Ukraine is at its early stage of development and at this point, internet retail sales do not have a substantial share of the market. According to Nielsen Connected Commerce 2018, online purchases of fresh foods and packaged foods in Ukraine are 3 percent and 6 percent while in the world they are 26 and 30 percent. The leader in that segment would be online service Zakaz.ua. It is an internet-based platform, which provides traditional retailers such as Auchan, Novus, Metro, and MegaMarket a space for online sales. Several retail chains such as Fozzy, Furshet, and Tavriya B have their own online-stores, while ATB, one of the top Ukrainian retail chains, does not have its own online platforms yet. French retailer Auchan, started working on their own online platform shop.auchan.ua where besides delivery they offer "click&collect" service: customers order groceries online; Auchan shoppers build the order and prepare it for pickup. As of now their groceries are delivered through zakaz.ua, while the rest of products is done through their own website.
- Supermarkets are gaining market share over small stores. In the past, large retail food chains focused on expansion through acquisitions. Multiple small retail chains sold to larger retail chains as they became less profitable. In an increasingly competitive market, retailers are seeking efficiencies and opportunities to gain market share. Acquisition of competitors creates economies of scale and increases efficiencies.
- 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. Consumption of bare necessities grocery goods is what drives this growth. Ukrainian households are shrinking and consumers choose to shop at a local convenience store to save time and money spent on fuel. As such, Ukrainian consumers with lower-middle and middle incomes are buying the goods of immediate daily necessity closer to their homes, making convenience stores a logical option. Big international players see potential in developing a separate channel of their stores. For instance, Auchan, launched its first convenience store "My Auchan" in July 2018. According to consumer behavior experts, the number of convenience stores is expected to grow. However, it can be slightly diminished due to the economic situation in the country. As disposable income grows,

more consumers will demand a greater selection of goods, which would motivate them to do their shopping in stores that offer bigger variety, such as supermarkets or hypermarkets.

Trends in Services by Retailers

- Ukrainian consumers continue to be price sensitive. For example, retailer chain "ATB" has increased its turnover by 22.4 percent in 2019 compared to 2018. But this retailer does not provide a possibility to place online orders. Its benefit - low prices. For the most part, Ukrainians choose the priority of a low price over the convenience of an online order. But as soon as there is a steady upward trend in the level of disposable incomes of the population, it is highly likely that an increase in the average share of food sales through an online order can be predicted.
- As Ukrainian customer's interest in organic and healthy food is increasing, local supermarkets are providing more options for these categories. Increasingly, Ukrainian consumers, especially in the biggest cities are willing to pay a premium for organic food items. As a result, supermarkets are giving greater priority to healthy and organic foods. Supermarkets are starting to group bio (organic), dietary, gluten-free, lactose-free, diabetic, kosher, and farm products into "healthy eating" group and some stores would open special healthy sections unlike in the past when these products were in no way distinguished. Organic products became more widely available throughout modern retail outlets and the variety of healthy products is expanding. There are a few specialty health store stores such as Eco-lavka and GoodWine (detailed description is under "*Specialty Supermarkets*", page 4).
- Sales in private label products are growing. More supermarket chains are offering private label branded products. The share of private label products in one of Ukraine's largest retailer ATB accounted for 20.6 percent of all their retail sales in first nine months of 2019 (which is 18.1 percent increase in comparison to the same period of 2018).The large chains such as Silpo and Auchan which offer private label products are importing directly not only to access prices that are more competitive, but also to position these products as of a higher quality. Ukrainian retailers started developing private labels much later than European ones and, therefore, there is a potential for growth. Ukrainian stores still need to work on customer's trust towards private labels.
- Fruits and vegetables remain a staple in the Ukrainian diet. Even with growth in other retail sectors, supermarkets are still dedicating a large portion of their sales area to fruits and vegetables.

Organic Certification in Ukraine

The new legislative provision came into force in early August 2019. For more information on Ukraine's organic certification please read Section VII: Other Specific Standards of [FAIRS Annual Country Report Annual_Kyiv_Ukraine_12_31_2019].

Table 1: U.S. Supplier's Advantages and Challenges Facing the Ukrainian Retail Food Sector

Advantages	Challenges
Ukrainian market follows U.S. trends in food and the number of consumers willing to pay higher prices for good quality food and agricultural products is growing.	Cost of transportation from the US is high, especially given volumes shipped.
As Ukraine is in the process of EU approximation, it is a good opportunity for U.S. to collaborate with Ukraine and EU to advocate for potential changes to the EU proposal on MRLs.	Ukraine is in the process of EU approximation and it is in the process of adopting a number of EU directives and regulations, which may contradict internationally accepted scientific justification and will result in market restrictions, market closure of traditional, or potential US exports to Ukraine.
Products certified as being manufactured under Good Manufacturing Practices (GMP) or HACCP will have greater ease of access to the Ukrainian market.	Certificates, which were negotiated between Ukraine and the US, might become obsolete due to changes in SPS standards and Ukraine's attempts to negotiate EU-like certificates that introduce multiple TBTs.
Average import tariff level for intermediary and consumer-oriented and processed food products are low.	Ukrainian regulatory framework changes aimed at compatibility with EU regulations create SPS and TBTs for US suppliers.
The retail sector is looking for innovative high value-added food imports.	Low awareness of U.S. products; extremely low presence of U.S. products on the shelves of supermarkets and discounters.
Structural changes in consumption lead to greater demand for value added food products.	Disposable incomes remain low, limiting imports to cheaper consumer-oriented food products and seafood.
Recent deregulation in SPS area along with removal of TBTs, accompanied by anti-corruption efforts, single window for importers led to some simplification of customs procedures.	

SECTION II: ROAD MAP FOR MARKET ENTRY

Entry Strategy

U.S. exporters should review FAS Kyiv policy and market reports and here Food and Agricultural Import Regulations and Standards - Country Report.

Find a Local Partner

Exporters should establish business relationships with reliable, experienced and professional importers and distributors. These will offer advice on issues related to the product positioning, packaging, labeling, and custom clearance procedures. Face-to-face meetings or visits of U.S. firms to Ukrainian facilities will build relationships and create opportunities to explore business opportunities firsthand.

Exporters able to supply sufficient quantities should consider approaching large Ukrainian food retail chains. Large supermarket chains have their own purchasing and importing divisions to handle food imports and most of them try to work directly with exporting companies. U.S. suppliers should first contact the purchasing or importing divisions of these large food chains, especially for new-to-market food products as they have the most experience with branding and distribution. FAS Kyiv has a list of local importers and can help with contact information. U.S. exporters should consider the price sensitivity of their customers, product requirements, purchasing policies, and purchase volumes.

Regulations and Market Requirements

Ukrainian regulations, standards and market requirements have to be considered (see, Ukraine: Exporter Guide and FAIRS - Ukraine Country Report).

Market Structure

Large supermarket chains import directly, as well as buy from importers or wholesalers. Others usually buy only through importers or wholesalers.

Company Profiles & Top Ukraine's Retailers

In September 2019 the Ukrainian Retail Association organized and held the Third Award Ceremony - Retail & Development Business Awards event in Kyiv. See The best Ukrainian "Retailers of the Year" and Distribution and Sales Channels in Ukraine published by the Ukrainian Retail Association and U.S. Department of Commerce, respectively.

SECTION III: COMPETITION

The main competitors for U.S. suppliers are EU member states. The U.S. industry's advantages include a good reputation for consistent quality and stable supply. The main advantages of competitors are proximity and price. For more information, please see Table 2: Ukraine's Top Ten Imported Consumer-Oriented Product Groups in the attachments.

In addition to following the healthy-food trend, several years ago Ukrainian consumers also picked-up on the craft beer. This trend has boosted beer imports up to US$ 57.1 million in 2019, a 11.6 percent increase from 2018 imports. For more information, please see Table 3: Top Fifteen Ukraine's Beer Imports from the World in the attachments.

SECTION IV: BEST PRODUCT PROSPECTS CATEGORIES

Ukraine is a good market for U.S. food exports, such as frozen fish and seafood, dried fruits, nuts, cereal products, snacks, beef, food ingredients, and other prepared food products.

Demand for healthy or natural foods is increasing, particularly for healthy and organic food. Niche products that target a specific health issue like diabetes or celiac disease (gluten-free food) are experiencing growth in demand, as well as vegetarian and vegan products. Additionally there has been significant growth in demand for high quality, higher-end food products. For more information, please see Table 4: Top Ten Ukraine's Agricultural Products Imported from the United States in the attachments.

Table 5: United States Products Presence

U.S. products currently in the market and demonstrated future sales potential	U.S. products not currently present in significant quantities, but which have good sales potential	U.S. products not present because they face significant barriers
• Fish and seafood • Beef • Nuts • Dried fruits (cranberries) • Alcohol (whiskey, beer, wine) • Snacks • Spices • Chewing gum, mints • Pet food	• Premium dessert products such as premium chocolate bars, cookies, ice cream, and cheese • Wine • Sauces • Vegan and vegetarian products • Kosher/Halal products • Organic food • Gluten free products	• Cheese and ice-cream due to difficulties with logistics which increases product price • Fresh fruits/vegetables due to strong competition from EU countries, Turkey, and Georgia.

SECTION VI: KEY CONTACTS AND FURTHER INFORMATION

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Links to government sources

Ukraine Tax Authority - Customs Tariffs
Ukraine Import Tariffs
State Statistics Service of Ukraine (in Ukrainian)
Ministry of Economic Development and Trade of Ukraine
State Service of Ukraine on Food Safety and Consumer Protection (SSUFSCP)
European Integration
For questions or comments regarding this report, or assistance exporting to Ukraine, please contact the Foreign Agricultural Service in Kyiv.

Attachments:

Additional Tables.docx