

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Ukraine

Exporter Guide

Annual Report

Approved By:

Randall Hager

Prepared By:

Oleksandr Tarassevych,
Agricultural Specialist

Report Highlights:

The sudden drop in consumption experienced in 2008/09 was followed by stabilization in 2010/11. Agricultural and food product markets were slowly recovering in 2011. The Ukrainian retail and food processing sectors are surviving difficult times. Ukraine is the second largest market for US products after Russia among the former Soviet Union countries. The trading environment remains complicated and non-transparent. Potential exporters are advised to secure an experienced Ukrainian partner with established contacts who is capable of navigating the myriad obstacles facing imported agricultural products.

Post:

Kiev

SECTION I. MARKET OVERVIEW

Macroeconomic performance and other indicators

Despite a lack of economic reforms throughout the 2000's, in 2010 Ukraine's macroeconomic indicators had stabilized and in 2011 demonstrated modest growth despite a rather turbulent world economic environment. The growth came after a significant economic decline caused by loose domestic financial policies and the world financial crisis. Ukrainian trade in food products developed rapidly over the past seven years. In the past this growth had been driven by a strong economy and by an increase in consumer incomes. The October 2008 financial crisis ended these rapid expansion trends and opened a period of new developments in Ukrainian agricultural and food markets. Ukraine's currency, the Hryvna (UAH), lost 63 percent of its value against the US dollar before stabilizing in the early fall of 2009. This drop significantly reduced the attractiveness of imported food products or Ukrainian consumers.

In 2011, expected GDP growth is around 4.8 percent. This continues the positive developments of 2010, but most of the growth comes from exports of raw materials and depends on world markets. The economic situation in the domestic market remains worrisome. The performance of the food sector is tied to performance of the rest of the economy and consumer incomes. Developments in 2011 have been turbulent: due to state budget income shortage the Government of Ukraine (GOU) reduced or eliminated many expensive socially oriented programs. In prior years, these programs cushioned the impact of the financial crisis on the population. In 2010/11 the GOU conducted tax and administrative reforms. Both had mixed success and contributed to already cumbersome business environment. Despite financial hardships, the GOU and international organizations agree on a GDP growth forecast in 2012 of a modest 2-3 percent. Together with social program reductions, this forecast gives little chance for consumer income growth and large scale recovery of the trade in food.

Real GDP Growth (Percent change from the Previous Year)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
-0.2	+5.9	+9.2	+5.9	+9.4	+12.1	+2.7	+7.3	+7.9	+2.1	-15.0	+4.2	+4.8

* FAS/Kyiv Forecast

In 2012 financially sound retailers and food processors will continue their efforts at mergers and acquisitions (M&A), seeking to gain control over regional, small or heavily indebted businesses. Some foreign companies may use the situation to their favor by looking for attractive assets among local players or acquiring attractive subsidiaries of bankrupt Ukrainian food producers and retailers. The financial condition of the majority of Ukrainian companies will remain difficult due to massive debt repayments.

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

Share of Domestically Produced Food Product in Trade Turnover

	2005	2006	2007	2008	2009	2010	2011*
Total Food Products	90.9	89.3	88.2	88.2	88.4	88.2	88.0

* *FAS/Kyiv Forecast*

Despite certain stabilization, Ukraine remains in a recession. Low global demand for steel and chemical products, lack of credit, and problems in the Ukrainian financial sector are still troubling. Some unsolved budget issues remain. Ukraine has one of the riskiest sovereign ratings in the world. Only agriculture has benefitted the overall economy with 0.1 percent growth in 2009 and shown stable growth in 2010/11. Two years of good grain and oilseed crops and favorable world prices have helped farmers to recover.

Industrial Output (Percent change from the Previous Year)

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

* *FAS/Kyiv Forecast*

Real household incomes fell 6.8 percent in '09 and the foreign exchange rate depreciated over 40 percent from the onset of the global crisis in the fall of '08. In 2011 incomes are expected to grow by nine percent. According to independent experts, the population saves in hard currency (dollars and Euros) given the steep devaluation. Inflation in 2011 is projected to be very low at 4.5-4.6 percent.

Many Ukrainian banks are currently experiencing difficulties because of expansionist policies exercised in recent years. They served as outlets pumping foreign currencies from parent banks (or short term syndicated loans) into Ukraine. The biggest portion of this currency inflow was used for consumption. Although many banks managed to avoid currency risks by providing loans in US dollars and Euros, the risks absorbed by the population and business happened to be extremely high. Abrupt devaluation of UAH from 4.6 UAH/USD to 7.9 UAH/USD undermined the population's ability to service loans in foreign currency. The GOU and the National Bank intervened, recapitalizing and nationalizing some commercial banks, but in many cases help arrived too late to make a difference.

The macroeconomic situation in the country is subject to constant changes. Trade risks increased greatly last year. Exchange rates, banking sector indicators and GOU policies are changing weekly. Political instability, however, has not vanished. An interested reader needs to refer to third party detailed analytical reports or to reports published by international organizations to get an understanding of the current situation and short term perspectives.

Ukraine posses a sizable shadow economy that developed due to tax pressures, frequently changing legislation, and law and contract enforcement challenges. Crisis developments resulted in a gradual growth of the share of the shadow economy over 2008-11. The tax reform of late 2010 did not improve the situation, especially for small and medium size enterprises. Experts estimate the size of the parallel shadow economy to be between 40 and 50 percent of the official economy. The country is ranked 152 out of 183 on the 2011 Transparency International Corruption Perception Index, which is 18 positions down than in the previous year.

The population of Ukraine was estimated to be 45.7 million, making it the second largest consumer market in Central and Eastern Europe after Russia. Ukraine's population is characterized by the increasing number of elderly and a slowly decreasing population. The size of the official labor force is stable at 20.2 million. In 2011, the official unemployment rate floats around 8.9 percent, but experts point out that the actual number is higher due to unrecorded unemployment and

underemployment, especially in rural areas. Stabilized real incomes and demand drove the stabilization in the domestic consumer market.

Ukraine joined the World Trade Organization (WTO) on May 16, 2008, decreasing most agricultural import duties to previously negotiated levels. The country is also bound by international agreements on Technical Barriers to Trade and Sanitary and Phytosanitary measures. Ukraine is on the final stage of Free Trade Agreement (FTA) negotiations with the EU and framework FTA with the Custom union Countries (Russia, Kazakhstan and Belarus).

Because of relatively low incomes and nearly 60 percent currency devaluation in 2008-10, the sale of the vast majority of U.S. food products available on the Ukrainian market is limited. Most U.S. products are of premium quality and value added and found in some niche markets frequented by wealthy consumers (1.5-1.8 percent of the Ukrainian population) and the growing middle class (13-17 percent of the population). Concomitantly, the rapid development of the Ukrainian food processing industry is opening the door for U.S. ingredient suppliers.

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

Retail trade

For most of the last decade a buoyant economy and strong growth in the local food retail sector contributed to an increase in sales of processed food products. The number of supermarkets and hypermarkets continued to expand up to the crisis. In 2002, the retail network was comprised of approximately 600 hypermarkets and supermarkets. By 2010, the number of outlets expanded significantly due to the overwhelming acceptance of them by consumers. Ukrainian supermarkets maintain the widest product mix and the largest proportion of imported products. Despite the rapid expansion of supermarkets in large urban areas, many food products continue to be sold through open-air markets and small convenience stores. 2010 FAS [Retail Trade Report](#) provides a detailed description of Ukraine's retail sector.

Foreign trade

Upon accession to the WTO Ukraine decreased its import duties to reasonable levels. However it still maintains veterinary and sanitary control. Some existing standards and veterinary regulations have complicated trade in U.S. ready-to-eat products, food ingredients, fish, poultry, red meats, animal genetics, and live animals. Abolishment of most of these trade barriers is yet to be done to bring the country in compliance with WTO rules. All these non-tariff barriers to trade add to high distribution and shipping costs. Custom valuation of the imported products remains to be the biggest problem for U.S. exporters.

Because Ukraine signed FTAs with Macedonia, Russia and other countries within the Commonwealth of Independent States (CIS), food and some agricultural products from these countries have price advantages over imported products from the United States. It must be noted that many of these FTAs contain multiple exceptions (especially for agricultural products) that decrease their role. A finalized FTA with the EU could have much bigger impact as many EU food

products are in direct competition with the U.S. Despite the U.S. capturing a relatively small share of the trade, in 2010 U.S. agricultural exports reached \$245 million. The opening of the Ukrainian red meat market in the end of 2008 and WTO accession further facilitated trade growth for U.S. products. (Note: These are official numbers that fail to capture products imported through the shadow economy.)

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

Advantages and Challenges Facing U.S. Products

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

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

- U.S. companies have little reliable information about the country, current market opportunities and potential business partners.
- Minimum quantities offered for export are often too large for the Ukrainian market.
- A perception that persists among Ukrainian importers is that landed costs of U.S. products are higher relative to European products due to higher transportation costs.
- The perception that U.S. exporters are simply too far away to follow market trends and service the Ukrainian market.

SECTION II. EXPORTER BUSINESS TIPS

Local Business Practices and Customs

Entry Strategy

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

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

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

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

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

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

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

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

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

General Consumer Tastes and Preferences

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

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

Biotech products have a negative public perception in Ukraine and the government has imposed compulsory labeling although one will not find labeled products in the supermarkets. There are no registered GM plant varieties for human consumption and there are only intentions to have them registered for animal feed. Ukrainian legislation on biotechnology in general is in development.

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

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

Food Standards and Regulations

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

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

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

- State Epidemiological Service (SES) of the Ministry of Health Care of Ukraine (MHCU) establishes food safety standards and is responsible for all aspects of food safety;
- State Veterinary and Phytosanitary Service (SVPS) is responsible for animal health, safety and wholesomeness of meat, seafood, other products of animal origin and live animals (State Phytosanitary Inspection Service of the Ministry of Agricultural Policy and Food of Ukraine has not yet joined the SVPS as intended by regulatory reform. It functions separately and is responsible for plant health issues);

- Agricultural Inspection Service (AIS) of the Ministry of Agricultural Policy and Food of Ukraine (MAPFU) is responsible for plant varieties;
- State Inspection for Consumer Rights Protection is responsible for compliance of food products with Technical Requirements and safety norms (listed in outdated State Standards which are voluntary for non-safety parts) if they are not controlled by other agencies and not covered by the new Technical Requirements.
- State Ecological Inspection Service (SEIS) of the Ministry of Ministry of Ecology and Natural Resources of Ukraine (MENRU) is responsible for radiological and environmental control.

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

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

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

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

According to GOU Resolution #661, any food product that contains more than 0.9 percent of GMOs, or if any ingredient in a food product contains GMOs as well as food products that do not contain any GMOs but are produced at least in part with agricultural products that contain GMOs and the total weight of GMO or GMO derived products in a single food product package exceeds 0.9 percent of its total weight, this food product has to be labeled "Contains GMO." If a single package of food product contains no GMOs or less than 0.9 percent GMOs, it has to be labeled "No GMO." Products without relevant labeling are not permitted for sale in Ukraine and are a subject to confiscation and fines. GMO food product labeling is a responsibility of the producer/supplier. Stick-on labels may be used. Please note that there are potential new recent developments in the law that could change these requirements.

Ukraine maintains a [positive list of food additives](#) and establishes its [own maximum residue limits](#) for chemical and biological contaminants in food products. Recommendations from the CODEX Alimentarius Commission, an international food safety standard setting body is considered in approving new food additives; however Ukrainian authorities conduct their own risk assessment for each new substance. Importing food products that contain food additives that have not received official approval is prohibited.

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

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

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

General Import and Inspection Procedures

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

subject to a quota restriction is raw sugar.

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

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

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

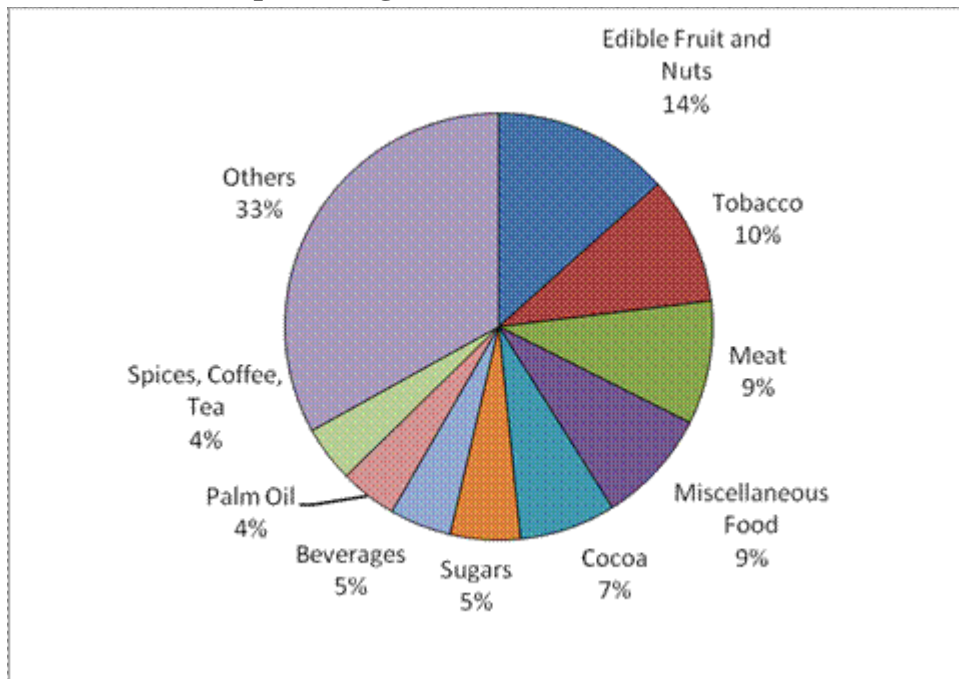
Ukrainian is the only official language recognized in Ukraine. All documents must be bilingual, submitted in Ukrainian or be accompanied by an official translation.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Competition

For the past six years, Ukraine has been a net exporter of agricultural and food products (HTS 1-24 groups). In 2010, total exports of agricultural products from Ukraine are expected to reached \$8.2 billion dollars (a nine percent drop from 2009), exceeding agricultural imports (\$4.9 billion dollars).

Import of Agricultural Products in 2010



Source: State Statistics Committee of Ukraine

The development of the food industry in Ukraine has led to a significant increase in the use of raw materials and additives for foodstuff production and comprises the majority of Ukrainian imports. For more information on opportunities in Ukraine's food processing industry, please refer to FAS Kyiv's report: [UP7003 Food Processing Ingredients Sector Report](#) found on the FAS homepage.

In 2005-2010, imports of the following commodities experienced the highest rates of growth:

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

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

Food products imported from EU and CIS countries are now the major competitors for U.S. commodities in Ukraine and will continue to be in the foreseeable future. Below is a list of the top 10 U.S. export commodities experiencing the highest import growth rate in Ukraine (for 2005-2010 with turnover over \$5 million):

- Meat (predominately poultry)
- Seeds for Planting (Corn Hybrids)
- Miscellaneous food
- Edible Fruits and Nuts
- Preserved Food (mostly Juice Concentrates)
- Tobacco
- Pet Food
- Fish and Seafood (Whiting and Hake)

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

Retail Food Sector

Due to the quickly growing number of super- and hypermarkets in 2001-2011, 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

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

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

The average floor space of a Ukrainian supermarket grew from 822 square meters in 2005 to 914 square meters in 2007 and 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 30–50,000 items. 80-90 percent of these items are of Ukrainian origin. Dairy and fish products, meat, bakery and spirits are widely represented. Supermarkets often cut their margins to attract as many customers as possible. The largest chain supermarkets use over 1,000 different suppliers represented by large wholesale companies, producers and importers. Local chains are adopting foreign practices and standards, and introducing production quality control departments and distribution centers. Many supermarkets are open round-the-clock.

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

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

Kiosks and Gas Marts

The number of kiosks, which were popular trade outlets in the early 1990's, has gradually diminished. The typical kiosk operates 24 hours a day and sells cheap alcohol, cigarettes and a limited number of food products. Limited floor space (usually 8-25 square meters) and a relatively wide stock list (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.

Chain Convenience Stores and Self-service Groceries

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

Traditional Outlets: Independent Grocery Stores and Open-Air Markets

Soviet-style stores with behind-the-counter sales (traditional groceries) are quite common in Ukraine. Some of these groceries are situated in central districts selling food products to office employees during the workweek and to a small number of urbanites. These stores have often been taken over by chain convenience store companies and converted into modern self-service convenience stores. Other traditional grocery stores survived in suburban communities in large cities. These stores are likely to leave the market due to fierce competition with supermarkets and modern convenience stores. They are losing clientele due to their limited product line, higher prices, poor customer service, and unprofessional vendors. In order to survive, many offer round-the-clock operations and lease some floor space to sellers of industrial goods (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 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.

According to experts' estimates, in 2011, 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.

HRI Food Service

The HRI sector in Ukraine remains small, but is developing quite rapidly. In 2011, the number of restaurants, cafes, bars and other HRI institutions in Ukraine exceeded 30,000. New fast food outlets and restaurants with international-style cuisines have begun to alter the structure of the food service sector. The market niche for expensive and elite restaurants is saturated, so the lower cost mass market is developing. Existing restaurants are divided into three categories: fast food, canteens and cafés, mid-level restaurants, and restaurants with "high-quality cuisine." The majority of outlets belong to the first group. With over 20 million visitors in 2010, tourists have become the major driving force behind the success of the HRI sector and the introduction of new food products to the Ukrainian market. Even more tourists are expected to attend the country in 2012, when Ukraine hosts the European Soccer Championship.

In addition to fast food establishments that offer pizzas, hot dogs and hamburgers, outlets of various ethnic cuisines, such as Mexican, Chinese, Vietnamese, Japanese, Italian, Indian and others, have entered the food service industry. However, the majority of customers prefer family-style menus featuring traditional Ukrainian food. In addition to McDonald's (with over 70 restaurants in 21 city of Ukraine), there are other fast-food restaurant chains like McSmak, "Pizza Chelentano" and "Kartoplyana khata" (Potato house), "Shvydko", etc.

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

Food Processing Sector

The food-processing sector in Ukraine has developed rapidly in the past five years (up until late 2008) with an average growth rate of 10-15 percent. The food industry's share in manufacturing is almost 20 percent. In 2010, the industry's total output of exceeded \$12 billion dollars (FAS/Kyiv estimates). Over 20,000 enterprises operate in the food processing sector of Ukraine. The fastest growth rate is found in fruit and vegetable processing, edible oils production, pastry and biscuits, baby food, and alcoholic beverages production.

Imports of food ingredients are estimated at \$1.5 billion for 2010 (including products for further

re-packing). Major imported products for the processing industries included poultry, fish, palm oil, cocoa products, juice concentrates, spices and seasonings, vegetables, additives, tobacco and others.

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

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

SECTION IV. BEST HIGH VALUE PRODUCT PROSPECTS

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

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

Products with Best Sales Prospects in Ukraine

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
Beef	115 ths. tons	4 ths. tons	No change	15 percent	Consumer unawareness of U.S. high quality beef; Sizable	Insignificant specialized beef production; Constantly growing beef

					domestic production, Complicated import procedures.	prices; Niche markets for meat delicacies (steak, etc.) and meat offal; Fast HRI development.
Pork	284 ths. tons	112 ths. tons	Over 30 percent	10-12 percent	Competition from Brazilian pork and informal trade.	Shortage of pork in the country; declining production; high prices; Demand for stable deliveries of both cheap and high quality product.
Fish and Seafood	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.
Planting Seeds	n/a	3.1 ths. tons	8 percent	0-20 percent depending on the plant	Uncertain customs regulations and clearance delays, customs valuation, variety registration issues	Superior quality of hybrid seeds (especially corn and sunflower), good and well established reputation
Dried fruits and nuts	50 ths. tons	8.1 ths. tons	20-30 percent	From 0 percent to 20 percent	Sharp competition with Iran and	Intensive development of confectionery

(exclude. peanuts)					Turkey. Desire of packers to save on raw stock, procuring low quality stock from Iran, Uzbekistan, and Afghanistan	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
Wine	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).
Pet food	N/a	133 ths. tons	20-30 percent	5-10 percent	Large supply of Russian-made cheap pet food; informal trade, 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

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

*** No 2010 data is available by the time when this report was drafted.*

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Ministry of Agrarian Policy and Food of Ukraine

24, Khrezhchatyk,

Kyiv, Ukraine, 01001

+380 44 226 34 66

E-mail: ministr@minapk.kiev.ua

www.minagro.kiev.ua

State Veterinary and Phytosanitary Service

1, Hrynchenka Str.,

Kyiv, Ukraine, 01001

+380 44 279-12-70, 279-47-61, 279-49-81

E-mail: udvi@minapk.gov.ua

<http://www.vet.org.ua>

State Consumer Right Protection Inspection

(former Derzhspozhyvstandart of Ukraine)

174, Gorkogo st., Kyiv, Ukraine, 03680

+380 44 268-84-12

+380 44 268-74-26 fax

E-mail: dssu@dssu.gov.ua

www.dssu.gov.ua

The Ukrainian Chamber of Commerce and Industry

33, Velyka Zhytomyrska str.,

Kyiv, 01601, Ukraine

+380 44 212-2911

+380-44 212-3353fax

E-mail: ucci@ucci.org.ua

www.ucci.org.ua

Ministry of Public Health of Ukraine

7 Hrushevsky st., Kyiv, Ukraine, 01021

+380 44 253-52-71, 253-61-65, 293-24-39

+380 44 253-69-75 fax

E-mail: moz@moz.gov.ua

interdep@moz.gov.ua

www.moz.gov.ua

Central Sanitary and Epidemiological Station of Ministry of Public Health of Ukraine

41, Yaroslavska, str., Kyiv, Ukraine, 04071

+380 44 416-43-54

+380 44 417-37-75 (fax)

American Embassy Kyiv, Ukraine

Foreign Agricultural Service

US Department of Agriculture

Washington, D.C. 20521-5850

tel.: +38044-490-4005

fax: +38044-490-4110

E-mail: agkiev@usda.gov

<http://ukraine.usembassy.gov/fas.html>

ATTACHMENTS

Table A. Sales of Major Food Product in Ukraine 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
Total Food Products		11863.2	14234.1	120
Food Products in Retail		10822.6	13013.5	120

Source: State Statistics Committee of Ukraine

Table B1. Ukraine's Agricultural and Food Imports from the U.S.

HS Code	Description	Million U.S. Dollars			percent Share			percent Change
		2009	2010	2011	2009	2010	2011	2011/2010
12	Misc. Grain, Seed	19.6	23.7	37.5	8.3	11.8	29.0	58.2
24	Tobacco	13.0	11.0	15.7	5.5	5.5	12.1	43.2
10	Cereals	26.9	20.3	13.2	11.4	10.1	10.2	-34.9
21	Miscellaneous Food	10.6	10.0	11.5	4.5	5.0	8.9	14.6
04	Dairy, Eggs, Honey	8.9	8.6	11.3	3.8	4.3	8.8	32.5
02	Meat	135.7	104.6	9.4	57.4	52.1	7.3	-91.0
08	Edible Fruit and Nuts	4.1	5.0	8.8	1.7	2.5	6.8	78.3
3505	Dextrins Etc; Glues Based On Starches, Dextrin Etc	3.6	4.5	5.6	1.5	2.2	4.4	26.8
22	Beverages	0.7	0.9	3.9	0.3	0.5	3.0	328.2
20	Preserved Food	0.5	0.5	2.8	0.2	0.2	2.2	484.4
23	Food Waste	8.3	5.5	2.6	3.5	2.7	2.0	-53.1
17	Sugars	1.3	1.4	1.6	0.5	0.7	1.2	14.4
13	Lac; Vegetable Saps	1.4	2.7	1.4	0.6	1.4	1.1	-47.7
-	Other Agricultural and Food Products	2.0	2.4	3.9	0.8	1.2	3.0	n/a
-	Total Agricultural and Food Products	236.5	200.9	129.3	100	100	100	-35.6

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

Table B2. Ukraine's Total Agricultural and Food Imports

HS Code	Description	United States Dollars			percent Share			percent Change 2010/2009
		2008	2009	2010	2008	2009	2010	
08	Edible Fruit and Nuts	581.9	631.9	733.3	9.9	14.0	14.0	16.1
24	Tobacco	457.6	455.6	471.4	7.8	10.1	9.0	3.5
21	Miscellaneous Food	579.1	421.9	466.5	9.9	9.4	8.9	10.6
02	Meat	843.6	568.5	458.0	14.4	12.6	8.7	-19.4
18	Cocoa	359.0	302.3	407.3	6.1	6.7	7.8	34.7
1511	Palm Oil & Its Fractions, Not Chemically Modified	418.9	219.5	274.0	7.1	4.9	5.2	24.8
22	Beverages	335.7	189.1	270.6	5.7	4.2	5.2	43.1
09	Spices, Coffee, Tea	214.7	194.3	234.1	3.7	4.3	4.5	20.5
17	Sugars	67.2	87.6	231.4	1.1	1.9	4.4	164.3
20	Preserved Food	314.3	196.4	223.3	5.4	4.4	4.3	13.7
23	Food Waste	243.3	206.6	208.4	4.1	4.6	4.0	0.9
12	Misc. Grain, Seed	234.0	135.6	178.9	4.0	3.0	3.4	32.0
10	Cereals	146.5	98.5	145.6	2.5	2.2	2.8	47.7
04	Dairy, Eggs, Honey	141.5	140.5	135.4	2.4	3.1	2.6	-3.6
07	Vegetables	91.1	77.8	129.9	1.6	1.7	2.5	67.0
19	Baking Related	153.6	96.2	125.8	2.6	2.1	2.4	30.8
1517	Margarine; Edible Mixtures Etc and/or Veget. Fat & Oil	109.2	88.7	91.9	1.9	2.0	1.8	3.6
-	Other Food and Agricultural	580.9	402.0	459.3	9.9	8.9	8.8	
-	Total Food and Agricultural	5872.1	4513.1	5245.1	100.0	100.0	100.0	16.2

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

TABLE C. TOP 15 SUPPLIERS OF CONSUMER FOODS AND EDIBLE FISHERY PRODUCTS to Ukraine
(\$ Million)

Partner Country	United States Dollars			percent Share			percent Change 2010/2009
	2008	2009	2010	2008	2009	2010	

	World	5872	4513	5245	100.0	100.0	100.0	16.22
1	Russia	717	511	564	12.2	11.3	10.8	10.3
2	Germany	563	426	462	9.6	9.5	8.8	8.2
3	Poland	526	371	398	9.0	8.2	7.6	7.3
4	Brazil	282	304	330	4.8	6.7	6.3	8.8
5	Turkey	234	248	285	4.0	5.5	5.4	14.8
6	Indonesia	256	146	250	4.4	3.2	4.8	71.0
7	United States	406	290	246	6.9	6.4	4.7	-15.1
8	Netherlands	285	193	212	4.9	4.3	4.0	9.6
9	France	253	151	175	4.3	3.4	3.3	15.8
10	Ecuador	153	134	158	2.6	3.0	3.0	18.4
11	Italy	120	98	140	2.0	2.2	2.7	43.1
12	Cote d Ivoire	95	97	133	1.6	2.2	2.5	37.2
13	Hungary	140	92	130	2.4	2.0	2.5	41.5
14	China	119	97	107	2.0	2.2	2.0	10.4
15	Spain	94	80	101	1.6	1.8	1.9	26.5

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