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Ukraine

Exporter Guide

Annual Report

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Report Highlights:

Demand for food products served as an anchor for the Ukrainian economy in 2016. On-going political and economic crisis resulted in general economic slowdown in 2013-15. The population's real disposable incomes were undermined by currency devaluation resulting in food consumption drop. Some signs of economic stabilization and food product import increases are observed in 2016. The trading environment remains complicated due to exchange rate fluctuations and food-safety control system reform aimed at compliance with EU rules and norms. Potential exporters are advised to secure an experienced Ukrainian partner with established contacts who is capable of navigating a myriad of obstacles facing imported agricultural products.

Post:

Kiev

SECTION I. MARKET OVERVIEW

Macroeconomic performance and other indicators

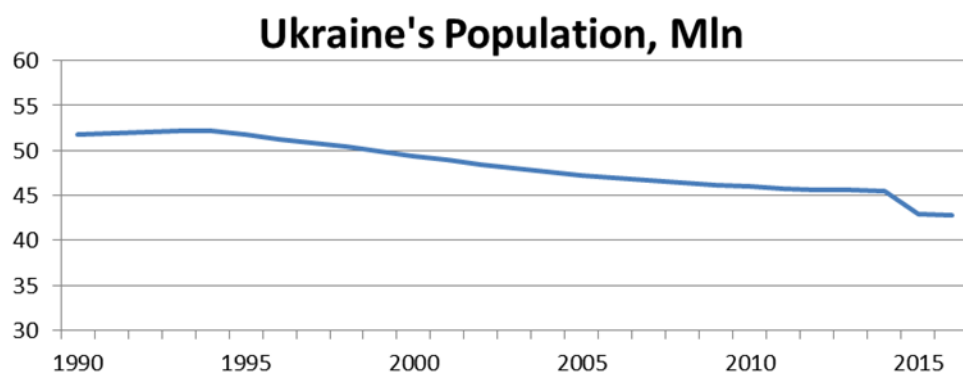
With rich farmland, a well-developed industrial base, a highly trained labor force of 20 million, and an adequate education system, Ukraine has the potential to become a major European economy. After a robust 8-year expansion beginning in 2000 that saw real GDP expand 75 percent, Ukraine's economy experienced a sharp slowdown in late 2008, which continued through 2009. After relative economic stability in 2010-2013, real GDP fell by 6.8 percent in 2014, stemming from economic and political instability inside the country as well as Russian military intervention in eastern Ukraine and the occupation of the Crimean Peninsula. After a 9.9 percent real GDP drop in 2015 Ukraine is expected to show a modest 1.5 percent growth in 2016. It will take a few years before the Ukrainian economy rebounds to pre-crisis performance and consumption levels.

Agriculture contributes over ten percent of Ukraine's GDP, according to the Ukrainian State Statistics Service. Over 17 percent of Ukraine's population is employed in agriculture. Private household plots accounted for almost 45 percent of agricultural output in 2015, although their share is constantly declining as larger producers increase production volumes for the majority of exportable commodities (grains and oilseeds) as well as producing large quantities of animal products (poultry and eggs) for domestic markets.

Ukraine has been a WTO member since May 16, 2008. The country adopted a relatively low import duty schedule and acceded with rather strict limitations on state support, and few sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) regulations in place. Ukraine's support programs were denominated in local currency which devalued significantly.

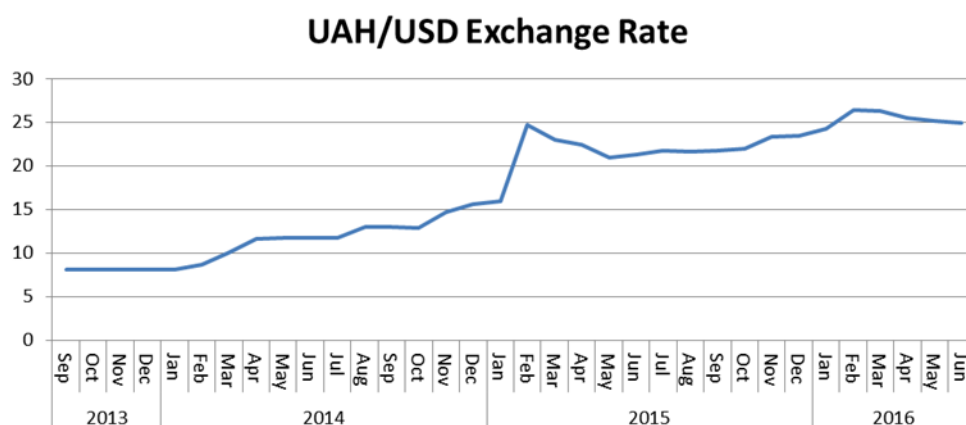
In March 2014, Ukraine signed the [EU-Ukraine Association Agreement](#), solidifying the country's intention to integrate into the European Community and bring laws and regulations closer to European standards to support trade and attract sorely needed investment. A crucial economic component of the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

Ukraine's economy heavily relies on exports of agricultural, metallurgical and chemical products. The overreliance on exports is a result of an underdeveloped domestic market and excessive dependence on demand for a limited number of commodities in a few foreign markets. Ukraine's fragility became especially evident when the Russian Federation blocked imports of a number of Ukrainian foodstuffs, including poultry, dairy, and confectionary products in 2014 and the majority of meat products in 2016. Ukraine has been able to partially compensate for this Russian market loss through an expanded economic relationship with the EU. The population of Ukraine is in decline. Life expectancy at birth is 71 years (2016) which puts Ukraine at 105th place out of 183. Ukraine has one of the highest death rates in the world (6.3 people per 1000 population) and occupies the 2nd place for general depopulation rate after South Africa. Organization of United Nations expects Ukraine's population to contract by 9 million (an estimated 28% total decrease) by 2050. Annexation of the Crimean Peninsula by Russia in 2013 resulted in another 1.9 million population decrease.



Source: State Statistics Service of Ukraine

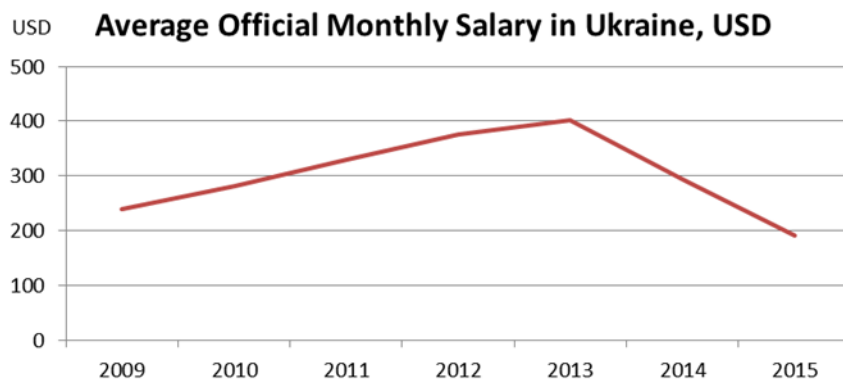
Significant political and economic shocks undermined the Ukrainian currency – Hryvnia (UAH) – stability in 2014, resulting in abrupt devaluation. Total currency devaluation in 2014 reached almost 100 percent, introducing significant problems in foreign trade operations. Another surge came in February 2015, further devaluing the national currency by an additional 30 percent. At the same time, the variation in the exchange rate exceeded 100 percent. The current exchange rate stabilization is maintained through multiple National Bank of Ukraine measures. Slow devaluation continued in the early months of 2016, resulting in an aggregated currency drop of 300 percent between 2013 and 2016. While UAH devaluation has made some prices more competitive for export, the recent stabilization in the exchange rate is welcomed by local producers, as it enables a degree of financial and contract stability that has been absent in recent years.



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

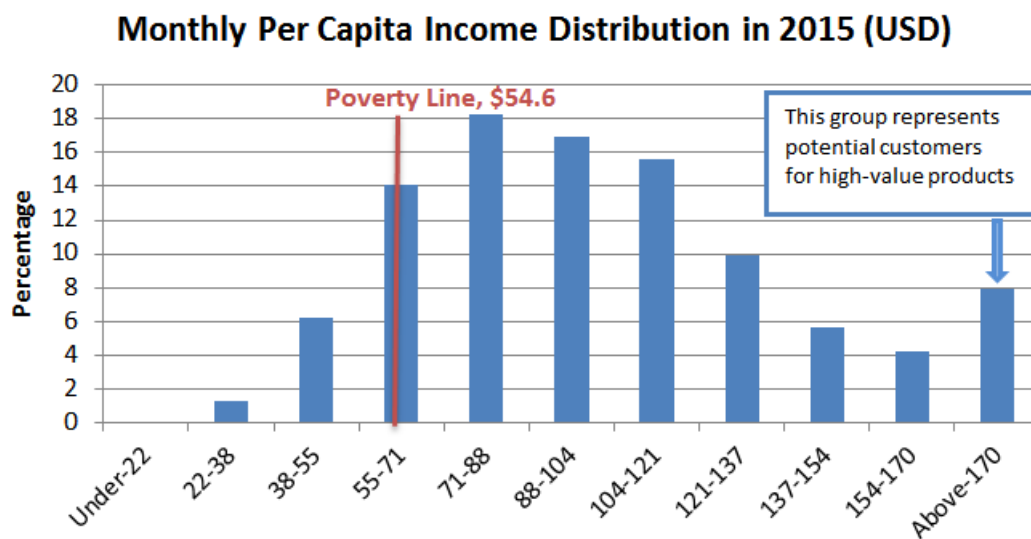
Toward the end of 2016 some administrative measures aimed at limitation of hard currency purchases by the importers were eliminated or moderated. A lot of importers adjusted to new rules, although exchange rate risks remained.

Currency devaluation led to an average salary decrease, which was not offset by the corresponding nominal salary growth.



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

Income decrease led to a general shift of the middle-class segment into the low-income segment with almost 8 percent of consumers below the official poverty line -- established at US\$1.80 per day. Such low income level hardly covers food and utilities expenses.



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

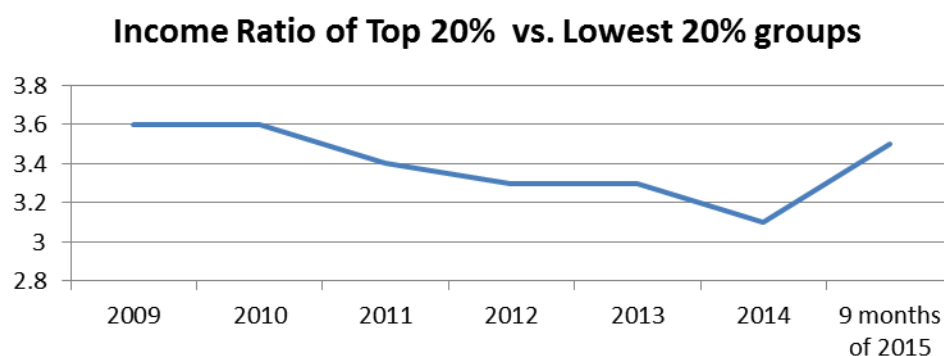
The majority of consumers survive on \$3-\$5 a day. Although Ukraine possesses a rather large unofficial economy, its positive influence on incomes (with the exception of the top-paid segment) is not very significant, ranging from 40 to 50 percent of official income. Low incomes lead to a situation where over 50 percent of household spending is spent on food.

FAS/Kyiv estimates that up to 90 percent of the population (close to 38 million consumers) are potential customers for lower-priced consumer oriented products from the U.S. Approximately 8 percent of those

consumers (up to 3.5 million) can be potential customers for high-value added consumer products.

The income distribution line above has a positive skew. According to different estimates, 0.3-0.5 percent of the population can be considered to be very wealthy by western standards. The majority of this affluent group is concentrated in large cities and the country's capital.

Ukraine possesses a sizable shadow economy sector. According to the Ministry of Economic Development and Trade, the shadow economy size captured around to 34-35 percent of GDP in 2011-2013, but exceeded 40 percent in 2015. The indicators are not exact and include calculations by 4 different methods: 1) population spending – retail turnover; 2) electricity consumption; 3) monetary; and 4) loss-making enterprises method). The population spending – retail turnover method shows the largest shadow economy size at 54 percent of GDP. However, this shadow economy estimation cannot be simply added to the official GDP figures. Multiple overlaps allow official GDP to reflect an estimated half of all shadow transactions.

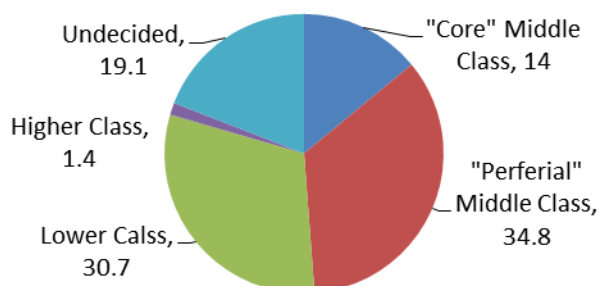


Source: State Statistics Service of Ukraine, FAS/Kyiv calculations

The above graph shows a declining income inequality ratio prior to the 2014 economic crisis. However, the inequality ratio increased greatly during the crisis period. The low-income consumers suffered significantly more than more affluent groups. By income level, the top 20 percent group would include the very affluent 0.3-0.5 percent of the population as well as high-paid specialists that form a thin middle-class layer.

Ukraine's consumer structure is very uneven and there is only a handful of studies that reveal the societal composition.

Self-Assessment Survey of Ukrainian Population by Social Class, 2014

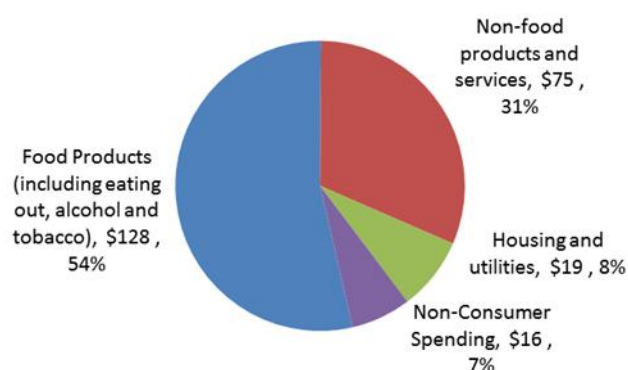


Source: Razumkov Center Survey of 10,054 respondents in all regions of Ukraine excluding Crimea. Sampling error is >1%; $R^2=0.85$ Date of the survey – December, 2014.

According to the highly respected Razumkov Center survey, only 14 percent of the population can be considered a true middle class using basic OECD-related middle class definitions (unites three groups of people: people that can afford everything, but attribute themselves to middle class; people that experience problems buying an apartment or a car; and people that have sufficient incomes for everyday life needs). The core middle class includes specialists, entrepreneurs, qualified workers, managers, pensioners and state servants. Over 60 percent of the lower class is represented by unemployed people: pensioners, people without jobs, students and disabled people. The rest of population can be qualified between the two.

The higher a group's social status, its share of young adults is higher, but the share of women is lower. The vast majority of Ukrainian retirees are represented in the lower class group. The Ukrainian middle class reproduces both itself and the higher class. The majority of both groups had parents that belonged to the middle class.

Monthly Household Spending in 2015, USD



Source: State Statistics Service of Ukraine, FAS/Kyiv calculations
Average household size in Ukraine is 2.2 persons

The decrease in disposable income will be an impediment for imports of U.S. products, with the impact felt into 2017 and beyond. Because Ukrainians continue to spend over half of their income on food, disposable income is the overwhelming determinant of demand for food imports, especially often higher-priced U.S. products. Without a meaningful recovery in household disposable income, boosting exports will be very challenging. Disposable income has begun to stabilize or even show a very small amount of growth in 2016, but not enough

to make up for recent losses. It will be several years at least before formerly obtained incomes are regained.

Annual Foodstuffs Sales in Retail Trade (1000 Tones)

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|------|------|------|------|-------|
| Meat and products | 480 | 527 | 621 | 489 | 454* |
| Butter | 32 | 36 | 38 | 35 | 31* |
| Vegetable oil | 138 | 147 | 144 | 139 | 111* |
| Cheese and soft cheese | 75* | 93 | 97 | 86 | 81 |
| Eggs, million | 2601 | 2698 | 2817 | 2566 | 2113* |
| Sugar | 156 | 166 | 208 | 212 | 191 |
| Confectionary (including ice-cream) | 320 | 345 | 355 | 341 | 288* |
| Tea | 11 | 12 | 12 | 11 | 9* |
| Bread and products (in wheat flour equivalent) | 834 | 837 | 841 | 811 | 716* |
| Potato | 106* | 178 | 179 | 142 | 130 |
| Vegetables (fresh) | 327 | 444 | 461 | 387 | 323* |
| Fruits and berries and nuts | 363 | 443 | 439 | 355 | 292* |

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

* - indicates five years lowest number

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

Ukraine is currently, and is expected to remain, a large importer of agricultural inputs needed for its growing agricultural sector. Imports of many bulk inputs (planting seeds) are expected to shrink as large international suppliers move into the country building domestic production facilities and distribution centers, while others (livestock genetics, tree shrubs, vegetable seeds) are expected to grow as their exports remain profitable. Imports of some inputs are defined by low cost-driven consumer markets. For example, being one of the largest vegetable oil exporters in the world, Ukraine imports significant quantities of palm oil which substitutes for more expensive domestic sunflower oil and butterfat in the confectionary industry.

Ukraine will also remain a large market for products that are not grown in the country. This list is extensive and includes tree nuts, fish, seafood, tobacco, cocoa, tea, coffee, spices, certain alcoholic beverages, fresh and canned fruits and many others. Many of these products can be considered staple foods as they enter each Ukrainian's diet and are consumed on a daily basis. Demand for these products is subject to disposable income fluctuations at much lesser extend (inelastic).

Advantages and Challenges Facing U.S. Products

| Advantages | Challenges |
|------------|------------|
|------------|------------|

| | |
|---|---|
| Structural changes in consumption lead to greater demand for value added food products. | Only small share of Ukrainian consumers can afford imported high-value added food products. |
| Recent deregulation in SPS area along with removal of TBTs, accompanied by anti-corruption efforts, led to some simplification of customs procedures. | High trade risks due to volatile exchange rate and political instability in the country, arbitrary custom valuation practices and corruption make imports of food products cumbersome. |
| 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 EU. Only EU-based producers can benefit from many zero import tariffs and import tariff-rate quotas. |
| 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 TBTs for US suppliers. |
| 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 and shipping costs, currency devaluation makes international chains switch to local 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. |

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.
- A perception that persists among Ukrainian importers is that landed costs of U.S. products are higher relative to European products due to higher transportation costs.
- The perception that U.S. exporters are simply too far away to follow market trends and service the Ukrainian market.
- U.S. companies are afraid of political and economic instability in Ukraine and just do not want to make deals under significant market uncertainty, sometimes even refusing an up-front paid sale.
- Often EU or Russia-based distributors or representative offices get Ukrainian market responsibility and both may miss opportunities while concentrated on their core markets.

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 may be 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 third country suppliers. Also, comparative advantages and disadvantages of U.S. products relative to products from major competitors (e.g. quality, price, transportation expenses, packaging, labeling, etc.)
- Availability of a local distributor familiar with the product. It is advisable to initiate personal contact in order to discuss marketing strategies, funding for advertising, slotting allowances, 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.

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 (often major retail chain). 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. Many Ukrainian retailers are surviving at 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 agree on proposed terms. The trend of financing of the retailers from the distributors' pocket became widespread.

In the vast majority of cases the importers are also responsible for the entire logistical chain and inland transportation. Due to frequent changes in Ukrainian legislation, non-transparent customs 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. Ukrainian laws and regulations are often vague and open to interpretation. U.S. businesses are advised that establishing a partnership with a Ukrainian company is a challenge that is beyond the control of the U.S. partner.

If the Ukrainian market looks promising, establishing a representative office is recommended to deal with buyers directly. Personal relationships are very important in Ukrainian business practices and often problems cannot be effectively resolved over the phone. It is a very common practice in Ukraine to purchase 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.

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. Many wholesalers undertake nationwide distribution, carrying a complete range of products. All major chains have rather efficient product selection strategies, although distributors always face rather high shelving fees. Chains may also refuse distributor service and shift toward direct imports should sales perspective and

volumes appear to be good.

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. Despite being price conscious shoppers, 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. Consumers in bigger urban centers are more demanding and sophisticated. Disposable income difference is quite significant.

Foreign geographic indicators (GIs) are rarely recognized by consumers, although there are some historically well-established local indicators that are claimed by some EU countries and producers. Ukraine possesses a very small number of its own GIs, but even less are legally registered as such.

Ukrainians are very familiar with organic products, but, similar to other countries, there are a lot of misconceptions about their quality and safety. In many cases household or small farmer-produced products are associated with “organic”. Ukraine has developed legislation related to “organic” claims (see FAIRS report for more information), but Ukraine’s own certification system remains non-functional. The EU’s Green Leaf logo is known and recognized by many. Ukrainian consumers are not yet familiar with the concept of “locally produced” and see no value in it. However, some upscale retail chains are trying to associate a farmer or small company’s name with specific products. So far these attempts are not associated with the “locally produced” concept and are made to highlight unique features (or even implicit health benefit) of the product.

All categories of consumers analyze product content/ingredients 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 strong in Ukraine. The diet of many low-income people is not nutritionally balanced and health concerns are mainly found only in big cities.

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

With average per capita income still quite low, Ukrainians spend over 50 percent of their incomes on foodstuffs. Prepared home meals are preferred over dining out. 62.1 percent of women (age 15-64) are employed, contributing 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 may grow when incomes allow. However, at this point public perception of semi-finished foods (frozen, pre-cooked products, TV-dinners, etc.) is rather negative.

Almost 33 percent of the population lives in rural areas. Their incomes are lower 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). Consumption of sophisticated food products by these consumer categories is limited, if existent at all.

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](#), which is available on the USDA/ FAS web site. An abbreviated review of Ukrainian import regulations and food standards is provided below:

Ukraine is in a process of modification of its outdated and costly food safety system inherited from the Soviet Union. In 2014, the process was accelerated by political developments and signing of the Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union (EU). However importers report that many old sub-legislative acts are still employed by the Customs Service for product detention.

Ukraine implemented a single food safety authority model for its food and animal safety control as well as consumer protection. The single regulator is called the [State Service on Safety of Foodstuffs and Consumer Protection](#) (SSSFCP). The SSSFCP combined the authorities of the former State veterinary and Phytosanitary Service, State Inspection for Consumer Rights Protection, State Sanitary-Epidemiological Service of the Ministry of Health of Ukraine, State Assay Service and State Agricultural Inspection Service. The SSSFCP is responsible for the safety of veterinary drugs, feed, products of animal origin for food and non-food consumption, other food products, phytosanitary issues (plant quarantine), plant varieties registration, seed certification, market control and control over consumption of precious metals and gems.

The Department of Food Safety and Veterinary (DFSV) of SSSFCP has the following divisions and brief list of responsibilities*:

- *Food and Feed Safety Division* (FFSD) is responsible for food and feed safety including products sold at open-air markets. It establishes criteria for safety and wholesomeness of food products including meat, seafood and other products of animal origin, develops technical regulations and standards. The Division develops the maximum residue level (MRLs) control plan and implements it. It is in charge for the risk evaluation and control. It manages accredited and reference laboratories, samples the product for state control and organizes testing. The division controls Hazard Analysis in Critical Control Points (HACCP) implementation by the processors and audits implemented HACCP systems.
- *Animal Health and Wellbeing Division* (AHWD) approves annual state animal health monitoring and control plans and programs. It implements measures aimed at prevention of OIE List A disease introduction to Ukrainian territory as well as other notifiable diseases from other countries and quarantine zones. It is responsible for disease elimination programs and disease outbreaks liquidation including export and import restrictions in case of confirmed outbreaks inside and outside of Ukraine.
- *State Control Division* (SCD) is responsible for state control of food and feed safety and quality, live animal registration, non-food products of animal origin, reproductive materials, veterinary drug registration, etc. It also evaluates risks and establishes control frequency of the production facilities. SCD approves and registers exporting facilities, conducts foreign audits and inspections, licenses veterinary practitioners, maintains official registers and conducts registration of GMO-sources and veterinary drugs.
- *Sanitary Regulations Enforcement Division* (SRED) is responsible for sanitary measures, biological and pathological materials handling, prophylactics and epidemiological measures, human disease

introduction from abroad prevention, human environment risk factor control, tobacco use control; it is also in charge for the state sanitary-epidemiological expertise, epidemiological investigations, human health risk factor assessments, state control of HACCP procedures, assigns inspection frequencies, state programs for dangerous factors monitoring, conducts state sanitary-epidemiological expertise of pesticide and chemical registration plans, monitors pesticide and agricultural chemical MRLs in foods and water.

* Interested readers should refer to the Department of Food Safety and Veterinary (DFSV) of SSSFCP website for a final and complete list of functions and controls of each of the SSSFCP divisions.

The Department for Phytosanitary Seeds and Nurseries of SSSFCP has the following divisions and responsibilities:

- *Phytosanitary Safety Division (PSD)* is responsible for phytosanitary risk analysis, phytosanitary expertise aimed at discovery and identification of regulated organisms; it issues phytosanitary export certificates and verifies import certificates and their compliance with Ukrainian phytosanitary requirements.
- *Seeds and Nurseries Control Division (SNCD)* controls seed production, registration and certification; verifies varieties and seeding qualities; issues permits for import of seeds to Ukraine; maintains the Registers of seed varieties and seed producers, attests seed producers and resellers.

The [Codex Alimentarius Commission](#) is an auxiliary authority that assists the SSSFCP in establishing Maximum Residue Levels (MRLs) for various contaminants (chemicals, veterinary drugs, etc.), food safety control methods, dietary additives MRLs, HACCP procedures, etc. Following the food safety reforms, the Ukrainian CODEX Commission lost its status as an auxiliary government body. In official regulations Ukraine mentions both international and EU norms although international (CODEX-based) norms should prevail. An exporter may wish to get in touch with the competent authorities in cases when there is discrepancy between the two.

Due to the complexity of the existing food safety system and its unpredictable changes, it is difficult for foreign suppliers to be aware of the most current food safety regulations. Suppliers should work with experienced importers in order to verify the most current import requirements prior to shipping to Ukraine. Since accession in 2008, Ukraine must comply with the WTO Agreement on the Application of Sanitary and Phytosanitary Measures, and the SPS Agreement. Ukraine also adopted an ambitious legislation approximation program under the Ukraine-EU Free trade Agreement (DCFTA) which should bring a lot of Ukrainian practices in compliance with EU requirements. This may introduce additional market access issues in cases when interpretation of the WTO rules by the EU is different from other countries. Currently, certain market access conditions established by Ukraine may be considered partially non-compliant with provisions of the WTO agreement and/or with the standards established by international standards setting bodies.

Customs clearance and related inspection services in Ukraine are fee-based and are viewed by many regulatory agencies as a source of additional revenue. Ukraine has yet to introduce full-scale risk evaluation procedures, so exporters should be prepared for rather frequent fee-based sampling and testing.

Safety criteria for the majority of food products were established by the Ministry of Health of Ukraine (MHU) and enforced by both MHU (in public food establishments and in the case of epidemiological investigations) and by SSSFCP (for all other food products).

Current microbiological indicators are adopted by the MHU in 2012 by Order 548 and empowered on August 10,

2015. The Ministry claims that the new list is harmonized with the EU norms. The first chapter of the law established criteria for presence of the following pathogens, toxins and substances in food product:

- *Listeria monocytogenes*,
- *Salmonella*,
- *Staphylococcal enterotoxins*,
- *Cronobacter spp. (Enterobacter sakazaki)*,
- *E. coli* (as fecal masses contamination indicator),
- *Histamine* (for some fish products)
- *Salmonella typhimurium* (for poultry).

Addendum 2 spells out hygiene requirements for meat and meat products, milk and dairy products, eggs, fish products, fruits, vegetables and products derived from them.

Safety parameters for poultry meat established by the MHU Oder 695 became valid on September 6, 2016. The new norms were established by MHU on August 6, 2013, and overall harmonized with EU requirements.

FAS/Kyiv will be providing additional information in the FAIRS narrative GAIN Report and FAIRS subject reports. 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.

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. The Ukrainian Customs Service often rejects the declared customs value of imported product as the basis for customs duty calculations. In this case importers should be ready to use appeal procedures 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 batch 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 (for products of animal origin), phytosanitary (if applicable) or safety and wholesomeness certificate* (for food products);
- Manufacturer's Certificate of Quality.

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

Products with Best Sales Prospects in Ukraine

SECTION IV. BEST CONSUMER ORIENTED PRODUCT PROSPECTS

Products Present on the Market with Good Sales Potential*

| HS Code | Product | Imports in 2014, MIn USD | Imports in 2015, MIn USD | Last 3 years average MIn USD | Import Duty | Main factors hindering import development | Attractiveness of the market for the USA |
|---------|------------------|--------------------------|--------------------------|------------------------------|-------------|---|--|
| 03 | Fish and Seafood | 72.8 | 32.5 | 70.3 | 0-10% | Competition with Canada, custom | Significant traditional demand for |

| | | | | | | | |
|--------|---|------|-----|------|------------------------------|--|---|
| | | | | | | valuation and product classification problems for salmon roe | hake and salmon roe that establish the core of US exports |
| 2208 | Whisky and Spirit Beverages (Ethyl Alcohol, Undenat, Und 80% Alc) | 10.5 | 8.7 | 10.0 | [3.5 €/litre of 100% spirit] | Competition with illegally produced local spirits; high import duties and excise taxes | Traditional preference to hard liquors over wine and beer; 13.9 L of spirit annual per capita consumption |
| 0802 | Almonds, Fresh Or Dried, In Shell or Shelled | 9.9 | 5.1 | 10.7 | 2.5-15% | Consumption level, low disposable incomes; completion with Turkey and Georgia | Established market share for high-quality product |
| 2309 | Animal Feed Prep Except Dog Or Cat Food, Retail Pk | 2.9 | 2.7 | 3.2 | 5-9.5% | Competition with cheap local feeds or cheap imports from Russia | Ukrainians love their pets and do not save on feed; U.S. has stable share in the top market segment |
| 1202 | Peanuts (Ground-Nuts), Not Roasted Or Cooked, Shelled Or Broken | 3 | 1.1 | 3.6 | 2.50% | Competition with India and Argentina; high export price | Consistent quality of the product |
| 210120 | Tea Or Mate Extracts/Essences/Concentrates & Preps | 0.3 | 0.3 | 0.3 | 10% | Demand is in testing level | Demand is fluent with a lot of consumer experimenting with different teas |
| 020130 | Meat Of Bovine Animals, Boneless, Fresh Or Chilled | 0.3 | 0.2 | 0.4 | 15% | High price of U.S. beef stakes; competition with Brazil and Argentina | No consistent local competition exists |
| 210390 | Sauces Etc. Mixed Condiments And Seasonings Nesoi | 0.8 | 0.5 | 0.7 | 10% | | |
| 081090 | Fruit Nesoi, Fresh | 0.6 | 0.3 | 0.4 | 10% | Competition with traditional Azerbaijani imports | U.S. have developed a stable market share for pomegranates |
| 180690 | Cocoa Preparations, Not In Bulk Form | 0.3 | 0.4 | 0.3 | 10% | Low incomes, demand is on testing level | Market size |

| | | | | | | | |
|--------|--|-----|-----|-----|--|---|--|
| 204-05 | Wine, From Grape, vermouths and flavored wines | 0.5 | 0.2 | 0.4 | [0.3 €/litre] - [1.5 €/litre] | U.S. lost ones established market due to incomes drop | The market for quality wine from the new world is being formed |
| 2203 | Beer mad from malt | 0.5 | 0.2 | 0.4 | [0.5 €/litre] | Low incomes, demand is on testing level | Market size |

* Because of the political and economic crisis developments, growth rate is not evaluated

** By reporting instructions this table does not include bulk and intermediate products; FAS/Kyiv used detailed HS codes to select consumer oriented products in cases when both bulk and retail subgroups were imported

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Appendix I. Government Regulatory Agency Contacts:

Animal Health Issues, Safety of All Animal Products and Seafood, Phytosanitary Issues and Registration of the new Verities, Conformity Certification

Mr. Volodymyr Lapa

State Service for Food Safety and Consumer Protection

1 Grynchenko St., Kyiv

01001 Ukraine

Tel: +38-044-229-1270

Fax: +38-044-229-4883

Homepage: <http://www.consumer.gov.ua/>

Sanitary and Hygiene Issues Related to All Food Products, MRLs.

State Department of Sanitary and Epidemiological Service

of the Ministry of Health Care of Ukraine

19/22, Voloska St., Kyiv

01601 Ukraine

tel. +380-44-253-3900

fax: +380-44-253-6975

e-mail: glavgos@moz.gov.ua

Homepage: <http://dsesu.gov.ua> (Ukrainian version only)

Institute of Ecohygiene and Toxicology of Ministry of Health Care of Ukraine

(responsible for state sanitary and hygiene expert examination, Head of Ukrainian CODEX Commission)

6, Heroiv Oborony St., Kyiv

03680 Ukraine

tel.: +38-044-251-9700

fax: +38-044-251-9643

E-mail: office@medved.kiev.ua

Homepage: http://www.medved.kiev.ua/home/index_en.htm (English version)

Codex Alimentarius Commission

Point of contact:

National Codex Alimentarius Commission

6 Geroiv Oborony Street,

03680 Kyiv, Ukraine

E-mail: secretar@codex.co.ua

Homepage: <http://codex.co.ua/eng/>

tel.: +380 44 -526-95-53

fax: +380 44 -526-96-43

Ecological Inspection of Animals, Birds and Radiological Inspection of Food Products

State Ecological Inspection Service

Ministry of Environment and Natural Resources of Ukraine

Tel: +380-44-244-5472

Fax: +380-44-206-3107

E-mail: dei@skif.com.ua

Pet Food and Feed Additives Registration

Dr. Igor Kotsiumbas, Director

State Scientific and Control Institute of Veterinary Drugs and Feed Additives

11 Donetska St

79019 Lviv, Ukraine

Tel.: +380-0322-523-372

Fax: +380-0322-521-193

e-mail: dndki@scivp.lviv.ua

Homepage: <http://www.scivp.lviv.ua/en.html> (Ukrainian/English)

Plant Variety Registration

Sergiy Melnyk, Chairman

State Institute for Plant Varieties Expertise / State Veterinary and Phytosanitary Service

Ministry of Agricultural Policy of Ukraine

15, Henerala Rodimtseva vul.,

03041 Kyiv, Ukraine

Tel: +380-44-257-9933

Fax: +380-44-257-9963

Homepage <http://www.sops.gov.ua/> (English/Ukrainian version)

Registration of Trade Marks

State Intellectual Property Service

8 Lvivska Ploscha,

04655 Kyiv-53, Ukraine

Tel: +380-44-212-5080, 212-5082

Homepage: <http://www.sdip.gov.ua/> (Ukrainian only)

Appendix II. Other Import Specialist Contacts:

Association of International Freight Forwarders of Ukraine (AIFFU)

Mr. Yuriy Prikhodko, Director General
112-B Saksahanskoho Str., Apt. 20,
01032 Kyiv, Ukraine
Tel./fax +380-44-235-4021, 235-5840, 235-5115
E-mail: info@ameu.org.ua
Homepage: <http://www.ameu.org.ua> (English)

Association of Customs Brokers of Ukraine

2 Solomyanska Plosha. Office 503 (left wing)
Tel.: +380-44-248-8202,
Fax: +380-44-248-8203
E-mail: info@ambu.com.ua
Homepage: <http://www.ambu.com.ua> (Ukrainian only).

Foreign Agricultural Service of the United States Department of Agriculture

Dwight Wilder, Agricultural Attaché
4 Igor Sikorsky Str.
04112 Kyiv, Ukraine
Tel.: +38-044-521-5496
Fax: +38-044-521-5038
E-mail: agkiev@fas.usda.gov
Homepage: <http://ukraine.usembassy.gov/fas.html>

APPENDIX – STATISTICS

Table 1. Ukraine's Agricultural and Food Imports from the World, Million USD

| HS Code | Description | Calendar Year | | | Year To Date | | |
|---------|-----------------------|---------------|------|------|--------------|---------|----------|
| | | 2013 | 2014 | 2015 | 06/2015 | 06/2016 | % Change |
| | All AG Products | 8363 | 6190 | 3580 | 1819 | 1989 | 5.3 |
| 08 | Edible Fruit and Nuts | 1243 | 801 | 465 | 233 | 213 | -8.4 |
| 24 | Tobacco | 454 | 482 | 404 | 205 | 200 | -2.5 |
| 21 | Miscellaneous Food | 659 | 530 | 340 | 157 | 147 | -6.1 |
| 03 | Fish and Seafood | 982 | 668 | 319 | 138 | 220 | 59.4 |
| 22 | Beverages | 605 | 422 | 233 | 99 | 118 | 18.4 |
| 12 | Misc. Grain, Seed | 391 | 312 | 215 | 153 | 232 | 52.0 |
| 18 | Cocoa | 461 | 359 | 194 | 82 | 86 | 4.1 |
| 09 | Spices, Coffee, Tea | 336 | 260 | 186 | 95 | 88 | -6.8 |
| 23 | Food Waste | 286 | 242 | 158 | 80 | 72 | -10.1 |
| 10 | Cereals | 307 | 367 | 155 | 133 | 116 | -13.1 |
| 20 | Preserved Food | 298 | 233 | 114 | 59 | 51 | -13.5 |
| | Other not listed | 2342 | 1515 | 798 | 384 | 446 | n/a |

Source: State Statistics Service of Ukraine via Global Trade Atlas

Table 2. Ukraine's Agricultural and Food Imports from the USA, Million USD

| HS Code | Description | Calendar Year | | | Year To Date | | |
|---------|---------------------------------------|---------------|------|------|--------------|---------|----------|
| | | 2013 | 2014 | 2015 | 06/2015 | 06/2016 | % Change |
| | All AG products | 430 | 275 | 138 | 86 | 97 | 19.0 |
| 12 | Misc. Grain, Seed | 95 | 62 | 38 | 31 | 56 | 78.9 |
| 03 | Fish and Seafood | 106 | 73 | 33 | 17 | 15 | -9.9 |
| 24 | Tobacco | 29 | 19 | 18 | 9 | 7 | -16.0 |
| 21 | Miscellaneous Food | 24 | 18 | 13 | 6 | 5 | -20.3 |
| 22 | Beverages | 12 | 12 | 9 | 4 | 3 | -29.6 |
| 04 | Dairy, Eggs, Honey | 40 | 29 | 6 | 6 | 0 | -98.5 |
| 08 | Edible Fruit and Nuts | 23 | 13 | 6 | 4 | 2 | -57.2 |
| 23 | Food Waste | 4 | 3 | 3 | 1 | 1 | -13.3 |
| 10 | Cereals | 14 | 15 | 2 | 1 | 2 | 32.0 |
| | Margarine; Edible Mixtures Etc and/or | | | | | | |
| 1517 | Vegitable Fat & Oil | 2 | 2 | 2 | 1 | 1 | -36.8 |

| | | | | | | | |
|----|---------------------|----|----|---|---|---|------|
| 13 | Lac; Vegetable Saps | 1 | 1 | 2 | 1 | 1 | 14.9 |
| | Other not listed | 80 | 28 | 7 | 1 | 0 | n/a |

Source: State Statistics Service of Ukraine via Global Trade Atlas

Table 3. Top 15 Suppliers of Consumer Foods and Edible Fishery Products to Ukraine

| Partner Country | Calendar Year | | | | | Year To Date | | |
|-----------------|---------------|------|------|------|------|--------------|---------|----------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 07/2015 | 07/2016 | % Change |
| World | 6555 | 7611 | 8221 | 6046 | 3458 | 2012 | 2202 | 9.5 |
| Germany | 576 | 659 | 668 | 530 | 310 | 178 | 197 | 10.5 |
| Poland | 434 | 528 | 554 | 399 | 296 | 175 | 175 | -0.3 |
| Turkey | 329 | 450 | 559 | 403 | 223 | 108 | 183 | 69.7 |
| Russia | 622 | 623 | 727 | 482 | 184 | 94 | 27 | -71.0 |
| France | 211 | 238 | 296 | 237 | 131 | 89 | 100 | 11.6 |
| Indonesia | 156 | 226 | 232 | 211 | 129 | 83 | 66 | -20.2 |
| Brazil | 203 | 313 | 412 | 261 | 127 | 85 | 99 | 16.8 |
| Ecuador | 236 | 186 | 215 | 179 | 122 | 64 | 85 | 33.0 |
| Spain | 201 | 251 | 251 | 184 | 120 | 64 | 69 | 6.9 |
| India | 162 | 273 | 311 | 212 | 119 | 71 | 76 | 7.1 |
| Italy | 388 | 453 | 375 | 174 | 118 | 66 | 72 | 9.4 |
| Netherlands | 108 | 140 | 136 | 130 | 114 | 73 | 59 | -19.2 |
| United States | 196 | 283 | 288 | 219 | 112 | 53 | 66 | 23.8 |
| Hungary | 215 | 221 | 232 | 193 | 105 | 63 | 66 | 4.4 |
| China | 268 | 259 | 255 | 190 | 99 | 55 | 74 | 34.0 |

Source: State Statistics Service of Ukraine via Global Trade Atlas