



EASTERN EUROPE AND CENTRAL ASIA AGRO- INDUSTRY DEVELOPMENT COUNTRY BRIEF

UKRAINE

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Key indicators

Key Economic Indicators ¹	2006	2009	2011	Food & Beverages indicators	2006	2009	2011
GDP (PPP), US\$ billion	291.31	291.20	331.39	Output, % of manufacturing	33.13	26.76	n/a
Manufacturing VA, % of GDP	23.08	17.81	17.55	Value Added, % of manufactur.	n/a	n/a	n/a
Agriculture VA, % of GDP	8.68	8.26	8.29	Enterprises, % of manufactur.	16.70	14.57	n/a
Employment in Agric., % of total	17.6	15.8a	n/a	Employment, % of manufactur.	20.48	20.31	n/a
Gross Fixed Capital F., % of GDP	24.6	18.35	19.27	Investments, % of manufactur.	3.91	6.08	n/a
FDI net inflows, % of GDP	5.2	4.11	4.36	FDI inflows, % of total inflow	n/a	4.6	n/a
R&D, % of GDP	0.95	0.87	n/a	R&D, % of Output	n/a	n/a	n/a
Merchandise Trade, % of GDP	96.10	72.74	91.41	Net Trade, US\$ billion	1.01	2.12	3.7
Merchandise Exports, US\$ billion	38.37	39.78	68.46	Exports, %of merchandise Exp	6.9	10.7	10.1
Merchandise Imports, US\$ billion	45.04	45.49	82.60	Imports, % of merchandise Imp	3.6	4.7	3.9
Exports annual growth, %	12.1	-40.7	33.0	Exports annual growth, %	11.0	-17.1	23.3
Import annual growth, %	24.6	-46.9	36.0	Import annual growth, %	16.7	-30.1	21.5
GNI per capita, US\$	1.95	2.84	3.12	Output per capita, US\$	568.6	417.1	n/a
Trade per capita, US\$ 2009-2011			3,169	Exports per capita, US\$	56.3	92.0	151.4
Doing Business Indicators Rank	124		137	Agribusiness Indicators Value			4.0
Global Merchandise Exports Imports Rank			50 38	FDI Inward Attraction Index			26 73

Agro-industry national policy framework

National development programmes: The key documents that set out the Government of Ukraine's policies for economic development as well as for agriculture, the agro-industry and rural development include: (i) the Programme of Economic Reforms for 2010-2014 "Prosperous Society, competitive economy and effective state"; (ii) the Concept of the state target economic programme on development of investment activity for 2010-2015; (iii) the National Program for Rural Development until 2015; (iv) the National Program of Poverty Reduction and Prevention for 2010-2015; (v) the State Targeted Program for the Development of the Ukrainian Countryside until 2015; (vi) the State Agrarian Policy up to 2015, which includes: food security, efficiency and international competitiveness and integrated development of rural areas and improvement of social conditions of the rural population; (vii) the Concept of the economic program implementation in agriculture new technologies in agricultural production for the period up to 2016; (viii) the Concept of Reform and Development of Agricultural Education and Science; (ix) the National Targeted Programme of animal breeding; (x) the State Program for Privatization for 2012-2014; (xi) the Programme on Innovative Activity in Ukraine for 2011-2012, declared the technological modernization and development of the agri-food sector one of the seven strategic directions of

¹ World Bank Indicators Database and ITC accessed in October 2012. Author's calculations

innovative activity that are of immense priority

The National Doctrine reform and development of the agri-food sector of Ukraine have been drafted.

The Ukrainian government has recently become a supporter of biodiesel production with tax exemptions for a certain period of time.

Ukraine has had a Partnership and Cooperation Agreement with the EU since 1998, including an ENP Action Plan. The new National Indicative Programme for 2011-2013 for Ukraine was adopted with a budget of EUR 470.1 million, in which support to agro-industry sector development and to trade facilitation are included. In 2012 the EU and Ukraine initiated the Association Agreement. Together with the UN organizations Ukraine has elaborated and signed the Government of Ukraine-United Nations Partnership Framework (PF) for the period of 2012-2016.

Legal framework: Ukraine has adopted a number of laws to encourage agricultural and agro-industry growth and rural development, including: the Law on Measures of state support provided to agriculture (2004) including the Agrarian Subsidies Fund establishment, the Law on Market Surveillance and General Product Safety (2010), the Law on Basic Principles of the State Agrarian Policy (2005), the Law on Grain and the Grain Market in Ukraine (2002), the Commercial Code (2004), the new Tax Code (2011), the Law on Wholesale Markets of Agricultural Products (2009), the Law on Support for the Utilization of Biofuel, the Law on Specific Privatization of Assets in Agro-Industrial Complex, the Law on Wine Grapes and Grape Wine, the Law on the Protection of Plants, the Law on State Regulation of Production and Sale of Sugar, the Law on Fisheries, Industrial Fishing and Protection of Water Bio-resources, the Law on Joint-stock Companies (2008), the Law on the State Land Cadastre (2012), the Law on State Regulation of Imports of Agricultural Products, the Law on Public-private Partnerships (2010), the Law on the Protection of National Industry Against Subsidized Imports (1998, amended in 2008), the Law on the Protection of Economic Competition (2009)

A number of Laws were drafted and made to public discussions in 2011-2012: the Law on Food Security, the Law on Organic Production together with the Concept of the State Programme of Organic Development in Ukraine; the law on Land Market and the Law on Agriculture. In 2012, the government of Ukraine came out with a comprehensive and progressive proposal to streamline the Ukrainian Food Safety legislation and harmonize it further to the best international practices.² The key element of the Draft Law on Agriculture is the system of so-called agricultural passports, under which individual Agricultural Passports for each agricultural enterprise will be developed for five years. These will contain agricultural production standards as well as the five-year planned production and other targets.³

Supporting institutions: The main state bodies related to agriculture and agro-industry development in Ukraine are: the Ministry of Agricultural Policy and Food, the Ministry of Economic Development and Trade and the Ministry of Health Care. In order to improve the competitiveness of agricultural production, as well as quality schemes, the ministry established the Agricultural Wholesale Markets Development Group. Other supporting organizations are: the National Centre for Implementation of Branch Innovative Programs (SE "NCIBIP"), which was formed in 2007, **the Institute for Economic Research and Policy Consulting (IER, formed in 1999)**; the State Agency for Investments and Innovations (formed in 2005); the State Agency for Investment and Development; the National Centre for Implementation of Branch Innovative Programs (SE NCIBIP, formed in 2007), the Ukrmyaso National Association of Meat and Meat Product Makers; the Ukrainian Association of Investment Business (UAIB, founded in 1995), and the Ukrainian Agribusiness Club (UCAB, formed in 2007), which is a public organization that represents the interests of major companies in the Ukrainian agri-food sector.

2 German-Ukrainian Agricultural Policy Dialogue (APD) Institute for Economic Research and Policy (IER) Consulting (2012) AGRI-FOOD POLICY REVIEW Food Safety and Quality Standards in Ukraine: A need for a breakthrough

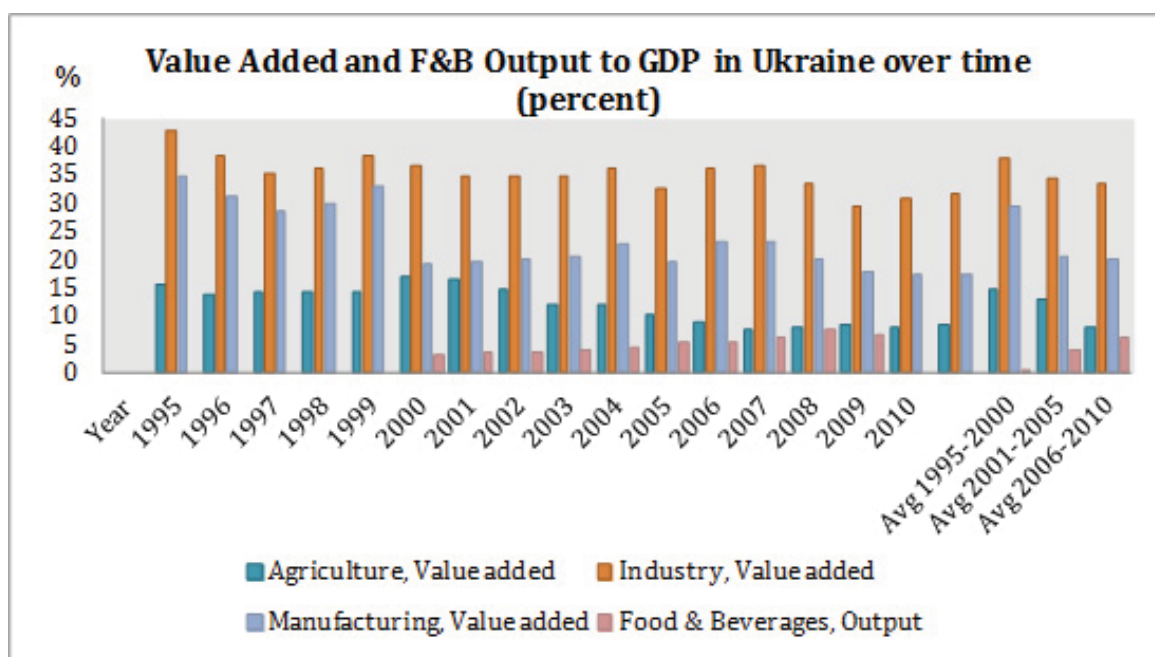
3 Project "German-Ukrainian Agricultural Policy Dialogue" (APD) The Draft Law 'On Agriculture': Questionable Objectives and Inappropriate Instruments. Policy Paper Series, prepared by O.Nivievskiyi. Kyiv, May 2012

Economic and Social Development and Trends

Economic and social development: Ukraine is a lower middle income country with GNI per capita of US\$ 3,120 in 2011. The population is 45.7 million, of which 31 percent live in rural areas, and the annual population growth is -0.35 percent. Ukraine recorded strong economic growth between 2001 and 2008 with average GDP growth of 7.5 percent. As a result of the global economic crisis, GDP declined by 15 percent in 2009. Ukraine's economy continued its recovery in 2011 and 2012, reaching real GDP growth to 5.2 percent. Employment growth is estimated at only 0.2 percent in 2011 compared to 1.9 percent in 2005.⁴

The agricultural sector employed around 16 percent of the total labour force in 2011. During 2011, the agrarian sectors contribution to GDP increased, from 7.6 percent to 8.3 percent, following the trend of recent years, which showed steady enlargement of agriculture's contribution to gross added value. However, in real terms, agricultural value added saw a decrease by 46 percent in 2009, although it started recovering in 2010 and 2011 with an annual growth of 18 percent on average. In 2011, the manufacturing industry generated 17.5 percent of GDP with negative annual growth of -26.6 percent after steady growth during last decade that averaged 10.5 percent. Ukraine is a net exporter of agricultural and food products. Ukraine is the world's largest exporter of sunflower seed oil and among the world's largest exporters of grain and sugar.

Chart 1. Evolution of value added to GDP in Ukraine (percent)



Source: WBDI, accessed in October 2012; UNIDO database; National Statistics; Author's calculations

Growing demands and trends: The share of total household expenditure that goes on food and non-alcoholic beverages declined to 47 percent in 2011 compared to 65 percent in the 1990s, however, the food share has slightly increased compared to 43.5 percent in 2007.⁵ The amount that the rural and urban populations spend on food and beverages are about 53 percent and 44 percent respectively. The foods that are account for the highest share of consumption are dairy products, eggs, pork, vegetables and bakery & macaroni.

The purchasing power of most of the population remains limited. The growing middle class has begun to shift towards higher-quality food products, but many Ukrainians can only afford basic foodstuffs. Demand for soft

⁴ The Economist Intelligence Unit, 2012

⁵ The Economist Intelligence Unit, 2012

drinks, especially fruit juice and bottled water, has grown strongly in recent years. Beer and wine consumption is increasing. Strong alcoholic drinks, including vodka and gorilka (domestic vodka), are still popular in Ukraine. However, consumption is decreasing due to the trend of rising excise duties on alcoholic beverages, among other things. Demand for ready-to-eat food, including sweets, cakes and crisps, as well as high quality meat and fish products, is increasing, especially in large cities.

Nearly 97 percent of foodstuffs consumed in Ukraine are produced domestically. These products include meat, poultry and dairy products, macaroni, confectionery and bakery products, alcoholic and non-alcoholic drinks, and canned meat and vegetables. In 2010, the five top agricultural products in terms of value in Ukraine were: cow milk (ranked by commodity in the world 17) sunflower seeds (ranked 1), wheat, chicken meat, and indigenous cattle meat.⁶ The most important commodities that are produced domestically are barley, honey, mustard seeds, oats, sugar beet, carrots and pork.

Agro-industry outlook and performance

Agro-industry background and challenges: In the past ten years, the Ukrainian agricultural and food industry sector has experienced substantial growth, owing to national policies that have been introduced, as well as rising food consumption and incomes. Ukraine is continuing its recovery from collapse in the mid 1990s and the global crisis of 2009-2010. In 2009 the Government formed a Stabilizing Anti-crisis Fund to secure compensation in the form of subsidies for bank loans for agricultural producers, cattle breeding, the lease of agricultural machinery, the implementation of some investment projects, and the partial reimbursement of expenses incurred for sowing of spring crops.⁷

The agricultural and agro-industry sectors went from a state orientated economy to a market orientated economy during the last two decades. Despite the fact that agriculture in Ukraine is of medium importance, it is ranked as the largest producer of sunflower seeds and is among the world's largest exporters of grain and sunflower oil. Ukraine has the largest area of agricultural land in Europe with more than 75 percent of arable land used for crop production. Fertile soil (Ukraine accounts for about 25 percent of global black soil, known as "chernozem") and a moderate climate give Ukrainian agri-producers strong competitive advantages.⁸ The vast fields of wheat, barley, rye, oats, sunflowers, rapeseeds and other grain and oil crops have long made Ukraine a "breadbasket." In 2011, the country enjoyed a record harvest of 56.7 million tons of grain, compared to 40 million tons in 2009.⁹

Food processing is one of the fastest-developing sectors of Ukraine's economy, almost fully covering the domestic demand of foodstuffs in Ukraine and the opening of the Ukrainian market has brought change in the range, appearance, and quality of food products over the past ten years. From a widely fragmented market with unbranded product lines, the Ukrainian food and drink market has been transformed into a relatively well developed market featuring a wide range of both international and local brands. Ukrainian food producers are upgrading their production facilities and searching for new technologies to remain competitive in the domestic market and to increase exports.¹⁰ The sector has considerable production, research and labour potential, and in recent years international food companies have started to find the market in which the Ukrainian food industry operates very attractive.

Ukraine's food industry has traditionally been the major supplier of basic foodstuffs, such as sugar, meat, salt,

6 FAOSTAT, accessed in October 2012

7 The Impact of the Economic and Financial Crises on Agriculture and Food Security in Europe and Central Asia: a Compendium

8 <http://investukraine.com/sectors/food-processing-industry>

9 the Project "German-Ukrainian Agricultural Policy Dialogue" (APD) The Draft Law 'On Agriculture': Questionable Objectives and Inappropriate. Policy Paper Series, prepared by Oleg Nivievskiyi. Kyiv, May 2012 Instruments

10 http://globalimpactconsulting.com/11/3/2/hot_sectors/food_processing/ukraine.html

oil, dairy products, alcohol and confectionery. The confectionery sector is one of the most stable sectors in Ukraine's food industry and is characterized by steady growth and a relatively low level of sensitivity to economic downturns. The confectionery market in Ukraine can be conventionally divided into three main segments: sugar confectionery (about 25 percent), farinaceous confectionery (about 48 percent) and cocoa-containing products (27 percent). Almost all products are produced with new formulations and with the use of improved equipment. Ukraine belongs to the top-10 global producers of milk. Despite its position, the Ukrainian dairy industry suffers from a permanent deficit of raw milk for processing. On average, between 2007 and 2011 over half of the raw milk produced did not reach processors.¹¹ The production of pork products is one of the most important traditional sectors in Ukraine. Pork accounts for about 35 percent of all meat produced, and 63 percent of pigs are kept on private farms. The latest trend is to increase the area of grape and wine production. In 2011, Ukraine managed to enter the top-10 European producers of grapes and wines, largely thanks to the introduction of modern technologies.

Organic products have become popular and expensive commodities in developed countries but Ukraine is still at the early stage of organic production with an official target of 10 percent organic production by 2015. The land share under organic products grew slowly from 0.59 percent to 0.65 percent between 2005 and 2010, reaching 270 thousand hectares in 2010. The number of registered producers increased to 142, compared to only 31 in 2002. These producers concentrate mainly on the production of cereals, green fodder from arable land, oilseeds, and protein crops.¹²

Food and beverage industry performance: The food and beverage industry forms a large part of the Ukrainian economy, contributing 6.9 percent to GDP. In 2009, the food and beverage industry generated US\$ 19.2 billion or about 26.8 percent of manufacturing output, which is four times higher than the food and beverage output in 2000. Per capita output is US\$ 417.10. The food and beverage industry grew steadily at about 35 percent a year between 2000 and 2007. However, the sector experienced a 27 percent decline in 2008 and a 23 percent decline in 2009, as a result of climatic conditions and the financial crisis.

In 2009, the food and beverage industry employed 431,000 people (or 20.3 percent of manufacturing labour force). This employment level was relatively stable until 2006 but it experienced an annual decline of 10 percent in the three following years. Labour productivity is growing over time. In 2009 there were 6,398 enterprises operating in the food and beverage industry (or about 14.6 percent of all manufacturing enterprises), 65 percent of which were private small or medium-scale enterprises. Recently, agro-holdings have begun to play an important role in agro-industrial vertical integration.

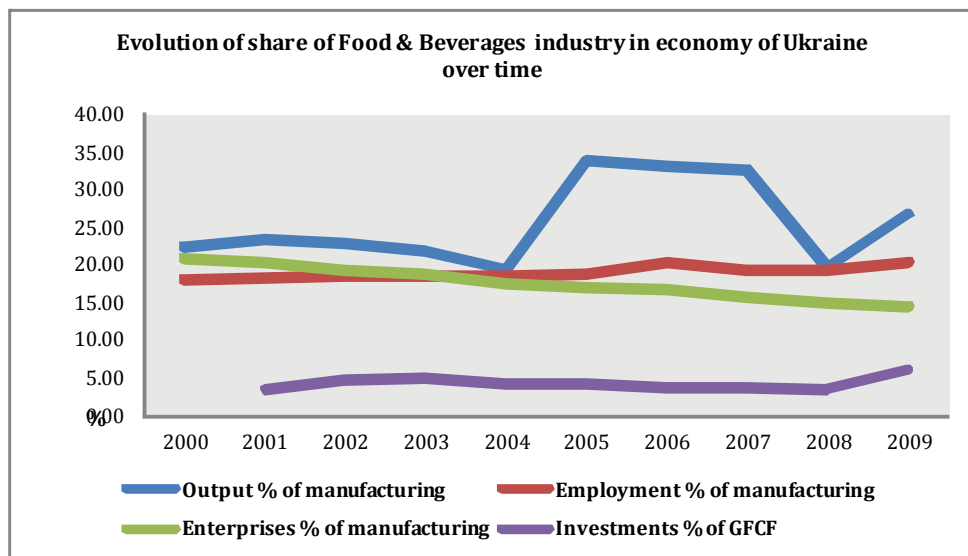
Investments in fixed capital in the food and beverage industry were increasing up until 2008 but decreased by 26 percent in 2009, accounting for US\$ 1.31 billion or 6.1 percent of total investments in fixed capital. This is almost double compared to 2008. In 2009 there were 336 innovation-active industrial enterprises (R&D) operating in the food industry or 25.5 percent of manufacturing enterprises. For example, confectionery manufacturing is concentrated in 30 major corporations and about 770 small and medium-sized enterprises with about 55 thousand employees.

The most important subsectors of the food industry are dairy processing, oil extraction, confectionery, sugar refining, flour milling, starch and molasses production, canned meat and vegetables.

11 Ukrainian Agribusiness Club: Doing Agribusiness in Ukraine 2012

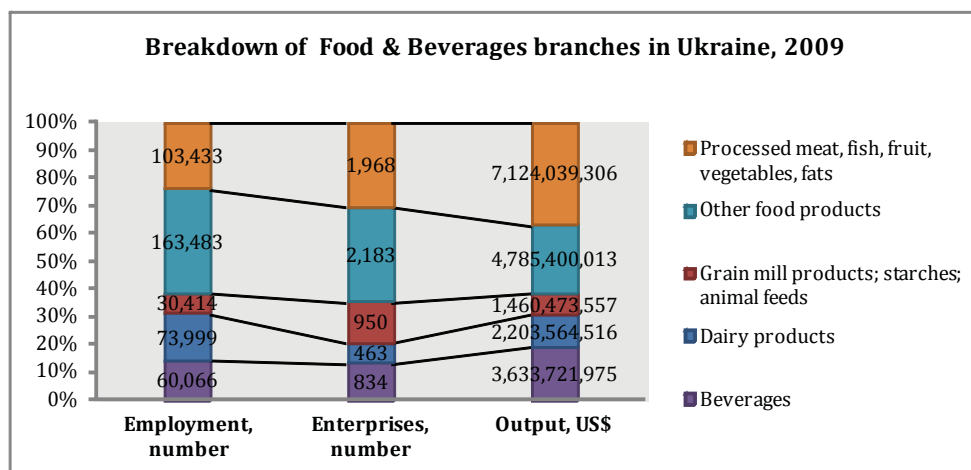
12 Research Institute of Organic Agriculture FiBL and International Federation of Organic Agriculture Movements IFOAM, 2012, <http://www.organic-world.net>

Chart 2: Evolution of the share of the food and beverage industry in the economy of Ukraine over time (percent of manufacturing)



Source: Author's calculations are based on UNIDO data and national statistics

Chart 3. Distribution of output, employment, enterprises and investments in the food and beverages sub-sectors of Ukraine in 2009



Source: Author's calculations are based on UNIDO data and national statistics

Trade liberalization, WTO accession and trade performance

Trade regulation and trade unions: In 2010, the Concept on Reforming the Performance of the State Customs Service of Ukraine was adopted. It is aimed at improving conditions for foreign trade and to attract investments in national production. The new Customs Code, adopted in 2012, is intended to simplify import procedures, by permitting registration of imports at any customs agency, including before goods are imported, reducing the time taken on customs registration procedures from one day to four hours, and by introducing electronic declarations and implementing the single-window principle. Customs procedures are also being computerized. Despite some progress made in specific areas, such as more streamlined coordination of border control and improved communication within the business environment, the need for substantial reforms remains. Importers reported an increase in the customs clearance time from two to eight days and an increase in the rate of physical inspections

(to 41 percent).¹³

Ukrainian trade policy is characterized by licensing that is valid both for import and export products. Ukrainian export regulations are characterized by restrictions (export quotas and export duties) in order to contain food price inflation. After WTO accession, Ukrainian tariffs were lowered and simplified from very high tariff protection for certain agricultural goods like poultry, sunflower seeds and sugar. Products such as wine, liqueur, vodka and tobacco are subject to excise tax. The Ukrainian government removed grain export quotas and duties for the good of the agro-industry, which were exposed in 2008 and 2010.¹⁴

Ukraine has had a Free Trade Agreement with EFTA countries since 2010 and also has them with 12 other countries. In October 2011, a new free trade agreement was agreed and signed by eight of the eleven CIS states; namely, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Ukraine (Uzbekistan, Azerbaijan and Turkmenistan may join the free trade agreement by the end of the year). The agreement became effective in 2012.¹⁵ Ukraine is at the final stage of Free Trade Agreement (FTA) negotiations with the EU and has a framework FTA with the Customs Union Countries (Russia, Kazakhstan and Belarus).

WTO accession: Ukraine has been a member of WTO since May 2008 and is an observer to the Agreement of Government Procurement (GPA) accession with a 0.407 percent contribution to WTO budget in 2011. The simple average of import duties for agricultural goods applied in 2011 was 9.5 percent.

Trade performance: In 2011, the value of Ukrainian exports increased by 33 percent and amounted to US\$ 68.4 billion. Imports showed a similar development with a 36 percent increase, amounting to US\$ 82.6 billion in 2011. This resulted in a trade deficit of US\$ 14.2 billion in 2011. In 2001 the main export commodities were iron and steel, cereals and machinery (cereals accounted around five percent of total export revenue).

Ukraine is a large exporter of food and beverages and agricultural commodities and had surplus trade balances of US\$ 3.70 billion and US\$ 3.65 billion respectively in 2011. These surpluses have been steadily growing over the past decade. Food and agricultural exports and imports comprised 18.3 percent and 6.3 percent of total merchandise exports and imports respectively in Ukraine in 2011. Processed food and beverage products accounted for US\$ 6.92 billion or 10.1 percent of total merchandise exports and US\$ 3.22 billion or 3.9 percent of total merchandise imports in 2011 with annual growth of 21.3 percent and 21.5 percent respectively, compared to a negative growth of 17.1 percent in exports and of 30.1 percent in imports in 2009. Per capita exports of food and beverage products were US\$ 57.6 in 2011.

In 2011, food and beverage product imports are diversified and the miscellaneous edible preparations product group accounts for the highest share (18 percent, ranking in world imports 30), followed by cocoa and cocoa preparations (15 percent, ranked 20), animal, vegetable fats and oils group (15 percent, ranked 47), and beverages (13 percent, ranked 37). Animal, vegetable fats and oils group account for 49 percent of exports (ranking in world exports 9) and other export-oriented commodity groups were: dairy products (10 percent, ranked 20), cocoa preparations (10 percent, ranked 18), and animal fodder (9 percent, ranked 17).¹⁶ The main export products are: sunflower seed oil, cheese, various kinds of drinks and chocolate (cocoa) based confectionery. The main import products are raw and processed fish and other seafood, tobacco, spreads, fruit and vegetables, alcoholic beverages and cocoa beans.

Across partners, both exports and imports of processed food and beverage commodities are well diversified. Russia was the major partner in trading of food and beverage products in 2011. Bilateral trade between Ukraine and the EU continued growing in 2011, and 19.4 percent of agricultural exports went to the EU.

13 EU (2012) Implementation of the European Neighborhood Policy in Ukraine Progress in 2011 and recommendations for action. Brussels

14 EBRD (April 2012) Agribusiness brief

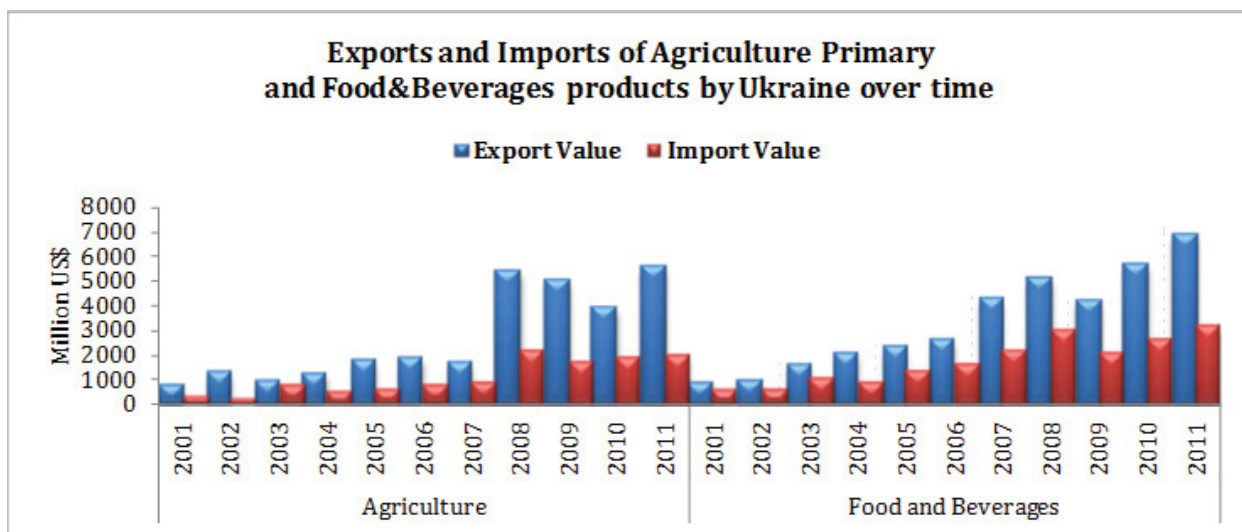
15 <http://www.kazakhstanlive.com/2.aspx?ProdID=e0e71609-f069-4c70-bbef-eda0cc466c14&CatID=9f9f8034-6dd6-4f7e-adcf-0f6a7c0406d9&sr=100&page=1>

16 ITC (UNCDAT/WTO)

Top destinations for food and beverage products: Russia (25 percent), India (13 percent), Turkey (seven percent), Kazakhstan (4.5 percent), and Belarus (4.5 percent) in 2011;

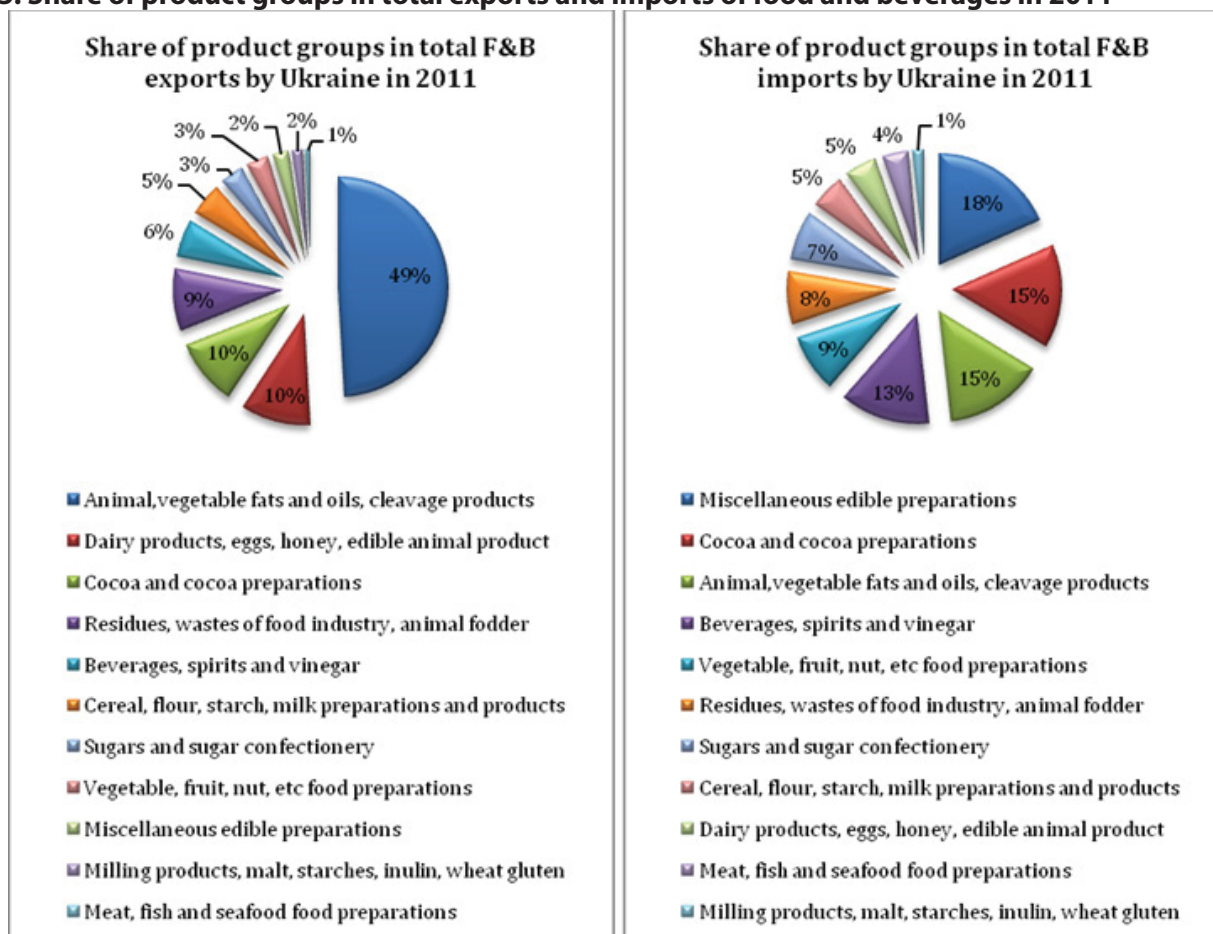
Top origins for food and beverage products: Russia (16 percent), Germany (nine percent), Indonesia (seven percent), Brazil (seven percent) and Poland (six percent) in 2011

Chart 4. Food and beverages and agricultural trade performance over time



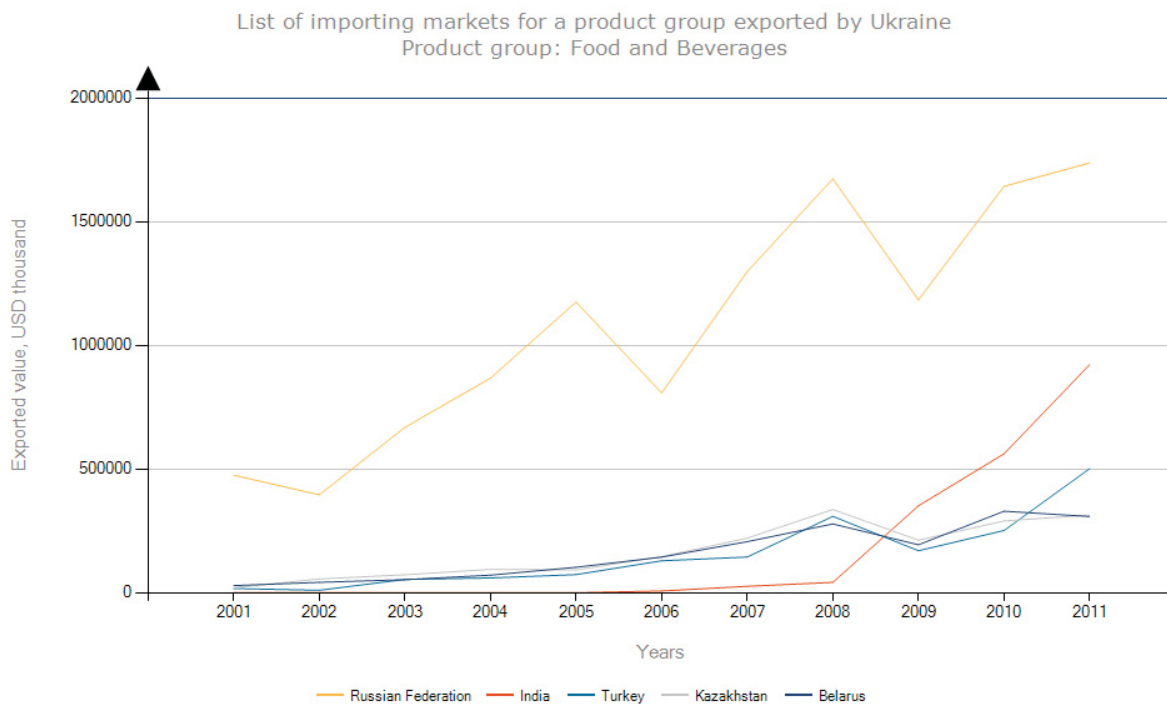
Source: ITC (UNCTAD/WTO): Trade Map online, accessed in October 2012

Chart 5. Share of product groups in total exports and imports of food and beverages in 2011



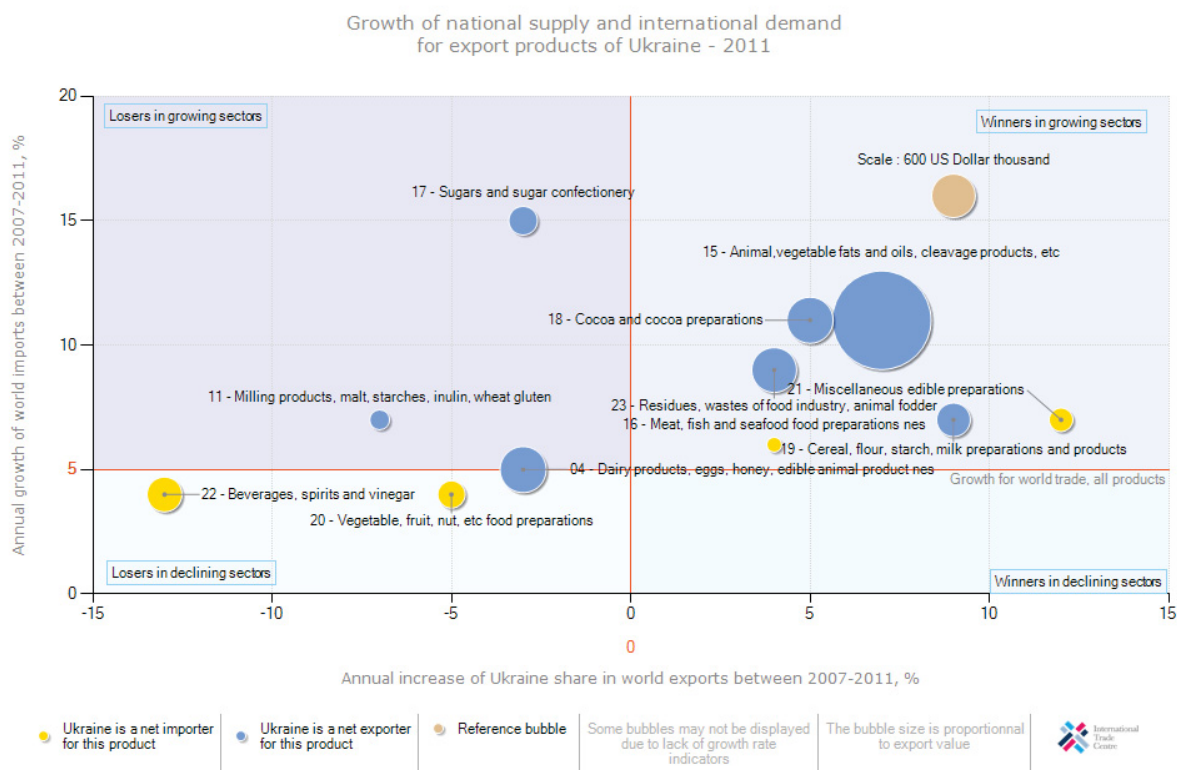
Source: ITC (UNCTAD/WTO): Trade Map online, accessed in October 2012

Chart 6. Evolution of the top five destinations of exported food and beverage products by Ukraine over time



Source: ITC (UNCTAD/WTO). Data is based on the selected products' groups. Trade Map online, accessed in October 2012

Chart 7. Growth of national supply and international demand for exports of food and beverage products by Ukraine in 2011



Source: ITC (UNCTAD/WTO). Data is based on the selected products' groups. Trade Map online, accessed in October 2012

Foreign direct investments

Strategies, regulations and ranking: the Law on Foreign Investment Regime (1996), the Law on Investments Activity and the law on Joint Stock Companies (2011) provide the legal basis for foreign investment in Ukraine. In 2010, the State Agency for Investments and Innovations of Ukraine was re-established into the State Agency for Investments and Development of Ukraine. The Government of Ukraine has introduced the Concept of the state target economic programme on development of investment activity for 2010-2015.

According to WIR 2012¹⁷, Ukraine was ranked 26 (among 181 economies) by the FDI Inward Attraction Index in 2011, which is a significant improvement on the ranking of 94 in 2000 (among 178 economies). Ukraine was third and fourth on the list of top five host and home economies (respectively) for FDI flows in the region in 2010-2011. Ukraine was ranked 10th in Central and Eastern Europe for the number of FDI projects (178) and number of jobs created (7,487) between 2006 and 2010.¹⁸

According to IAB report¹⁹, Ukraine imposes restrictions on foreign equity ownership that are more severe than in most other countries. However, most of the primary and manufacturing sectors are fully open to foreign capital participation. Some limits will likely be abolished soon in accordance with the country's WTO commitments. It takes 11 procedures and 28 days to establish a foreign-owned limited liability company (LLC) in Ukraine (Kiev), which is slower than the EECA average but still faster than the global average. Registration of foreign investment is optional. Companies in Ukraine are free to open and maintain bank accounts in foreign currencies. The minimum capital requirement is pegged to the minimum monthly salary. The land law in Ukraine allows foreign companies to buy non-agricultural land within a city's limits for construction purposes or commercial activities. Foreign companies can buy or lease privately or publicly held land (for up to 50 years), but purchasing public land has a generally more complicated, requiring the consent of the relevant minister or of parliament. A cadastre has been legislated for, but has not yet been established.

Foreign direct investments flows: In 2011, the investment climate for Ukrainian FDI inflows improved, reaching US\$ 7.2 billion or 4.4 percent of GDP with an annual increase of 11 percent after experiencing a sharp decline more than in two times in 2009. The vast majority of FDI is directed towards the financial services and industrial sectors. Stabilization of the country's economic state has allowed food and beverage companies to attract more long-term loans on the capital market. The food industry is the third principal choice for FDI in Ukraine (after the financial sector and metallurgical production). In 2011, FDI inflows in food, beverages and tobacco products amounted to US\$ 2.07 billion or about four percent of the total FDI in Ukraine.²⁰ Since 2009, FDI in the food industry has grown slightly in real value (US\$ 1.84 billion) but decreased in terms of the share in total FDI inflows (4.6 percent).

Over the last five years, the top investors in Ukraine have come from the USA (12 percent), Germany (12 percent), Russia (10 percent) and France (eight percent). By value in 2010, the largest investors in Ukraine come from the EU (54 percent) and from Russia (15.6 percent). The value of investment from both the EU and Russia declined in absolute terms in 2010 from 2009 levels²¹

The food processing industry is active with mergers and acquisitions. The main international players are: Nestlé (Switzerland) in the confectionery segment, Bunge and Cargill (both US) in the sunflower oil segment; Wimm-Bill-Dann (Russia) and Danone (France) in the dairy segment, Coca-Cola (**run by the Greek-based Coca-Cola Hellenic**

17 UNCTAD (2012) World Investment Report 2012: Towards a New Generation of Investment Policies, UN Conference on Trade and Development NY and Geneva, Switzerland

18 Ernst & Young (2011) The Ukraine Foreign Direct Investment (FDI)

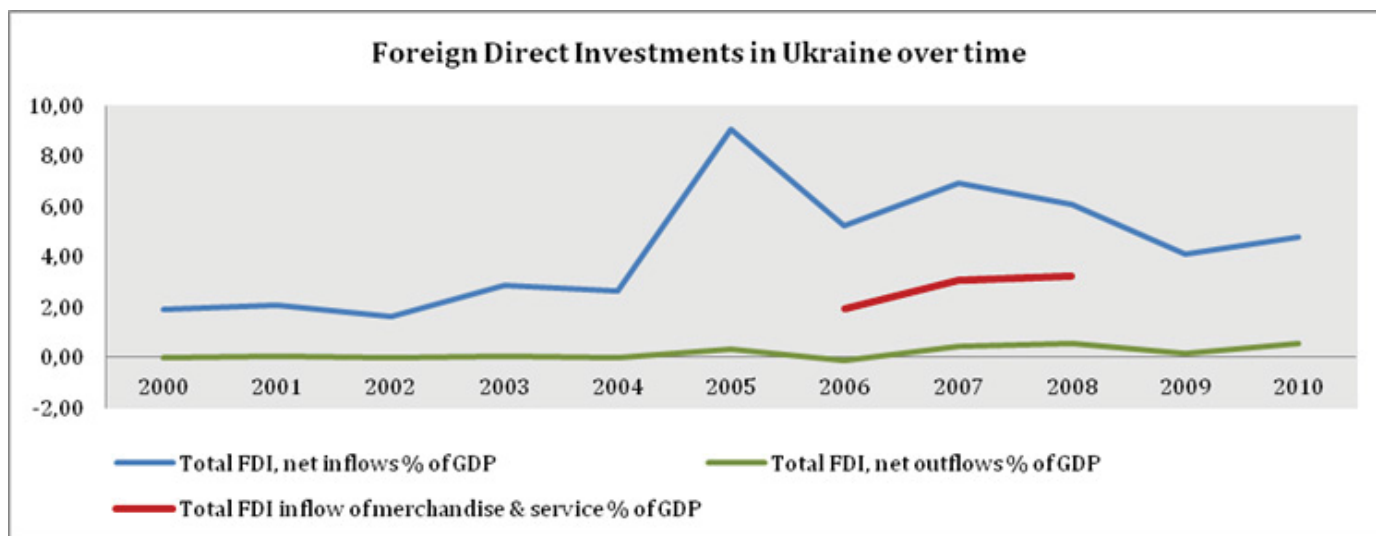
19 IFC/MIGA/WB (2010) Investing Across Borders: Indicators of foreign direct investment regulation in 87 economies. The World Bank Group. Washington

20 InvestUkraine & Deloitte (2012) Food Processing Industry in Ukraine. Industry overview.

21 Ernst & Young (2011) The Ukraine Foreign Direct Investment (FDI)

Bottling Company), Sandora in juice production (fully owned by PepsiAmericas and PepsiCo); SUN InBev Ukraine in beer production (owned by the Belgian Anheuser- Busch InBev). European countries such as the Netherlands and the United Kingdom are among the principal foreign investors in Ukraine as major agri-business moves. American companies such as Cargill, John Deere and Kraft Foods have begun to invest in agriculture and agri-food in Ukraine, often with local partners.²²

Chart 8. Foreign direct investments in Ukraine over time



Source: WBDI; ITC (UNCTAD/WTO); accessed in October 2012

Food safety, certification and quality control

Food safety background and Ukraine's membership: Ukraine is a member of the *Codex Alimentarius* Commission and it is a member of the International Organization of Standardization (ISO). Since accession in 2008, Ukraine has had to comply with the WTO Agreement on the Application of Sanitary and Phytosanitary Measures and with the SPS Agreement. Ukraine has gradually brought its sanitary and phytosanitary (SPS) standards into line with those of the WTO and the EU, and there has been progress on the SPS negotiations for the DCFTA. Moreover, a working group has been established that started work on reforming the food safety inspection system on the basis of EU standards. Under the administrative reform announced by the President in 2011, the State Committee on Technical Regulation and Consumer Policy (DSSU) will be re-organized as the State Service on Technical Regulation.

Agricultural food safety is subject to the Law on Quality and Safety of Food Products and Food Raw Materials (as amended in 2002), the Law on Standards, Technical Regulations and Conformity Assessment (2005), the Law on Veterinary Medicine, the Law on Plant Quarantine, the Law on Assuring Sanitary and Epidemiological Well-Being of Population, the Law on Consumer Rights Protection, Law on Protection of Rights to Indication of Origin of Goods (as amended in 2008), the Law on Protection of Rights to Marks for Goods and Services (as amended in 2008), the Medical and Biological Requirements and Sanitary Norms of Quality of Raw Food Materials and Food Products, Provisional Procedures of the State Sanitary and Hygienic Expertise; the Law on Technical Regulations, Standards and Compliance Verification Procedures, the Law on Standardization; the Law on Conformity Certification.

Dietary, prophylactic food products, biologically active agents, baby food and food for athletes are considered special food products in Ukraine and must be registered with the Ministry of Health Care prior to being imported. The new procedure for authorising imports of animal products deserves special attention, as does the draft legislation on water and on the certification of meat, dairy and poultry products.

²² USDA (2012)

Quality control and certification: In Ukraine, the following state bodies are involved in assuring the safety of domestically produced and imported food products, and animal and plant health issues: the State Veterinary and Phytosanitary Service (SVPS), whose activity is directed and coordinated by the Cabinet of Ministers through the Minister of Agrarian Policy and Food of Ukraine (established in 2011); and the State Epidemiological Service (SES) of the Ministry of Health Care of Ukraine, which is the major control element in the food safety system (especially true for processed products that are not subject to veterinary and/or phytosanitary controls). However, in early 2013 the SES is to suffer a major workforce reduction (approximately two times lower) with major structural change as the new entities will be called “Public Health Centres” instead of “Sanitary-Epidemiological Stations”. Another supporting institution is the State Inspectorate for Consumer Rights Protection (established in 2011) under the Ministry of Economic Development and Trade, which 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 new Technical Requirements.

The current Ukrainian legislation on certification remains in transition from a Soviet-type scheme to a modern one. The system is based on both compulsory (Technical Regulation) and voluntary (State Standard) regulations. More than 100 institutions are authorized to conduct certification under the Ukrainian State Certification System (UkrSEPRO). Certification can be done with one of the systems used in Ukraine – with the state quality standards (GOST) or Ukrainian national standards (DSTU). The list of products subject to compulsory certification is not extensive and includes mostly seafood, canned products for consumption by children and wine and tobacco products. Certification of Ukrainian organic farms in accordance with EU Regulations was initiated in the late 1990s. Starting in January 2010 and in accordance with the special Regulation between the EC and Ukraine, the established certification and control system for sunflower seed oil will provide valid certificates for exports to the EU. Dietary, prophylactic food products, biologically active agents, baby food, and food for athletes are considered special food products in Ukraine that must be registered with the Ministry of Health Care. After a positive verification of health claims and a food safety risk assessment, the product will be included into the State Register of Special Food Products of Ukraine.²³

In 2010, Ukraine adopted rules on the frequency of veterinary-sanitary inspections at enterprises, applying strengthened hygiene rules based on HACCP system. Only an estimated one percent of the 20,000 food enterprises in Ukraine have implemented HACCP.²⁴ International organizations are supporting Ukraine in improving the food safety system through the ongoing project.

Retail, domestic market and international trends

Ukraine is ranked as one of the top five of 30 emerging countries in terms of retail development.

EIU analysis²⁵ considers that, despite some signs of greater consolidation, Ukraine’s retail market remains highly fragmented. It continues to be held back by low spending power and a difficult business environment. Open markets or bazaars continue to play an important role in the market and are estimated to account for around half of all retail trade. The spread of supermarkets and hypermarkets intensified during the pre-crisis boom, especially in large cities, although these tend to be on the outskirts of cities and towns. It is estimated that 72 percent of consumers in Kiev purchase foodstuffs in supermarkets and six percent in hypermarkets.

The top five players in the food retail market control around 35 percent of the total organized food market. The

23 USDA (2012) Ukraine: Food and Agricultural Import Regulations and Standards –Narrative. FAIRS Country Report

24 http://www1.ifc.org/wps/wcm/connect/region__ext_content/regions/europe+middle+east+and+north+africa/ifc+in+europe+and+central+asia/countries/improving+food+safety+in+ukraine

25 EIU (2011) Ukraine: Consumer goods and retail. Industry Report

market leaders, the locally owned Fozzy Group and Metro Group (Germany), each account for around 10 percent of the market. The next-largest players are the domestically owned ATB Market, Furshet (in which Auchan of France has a minority stake) and Retail Group. Each of these controls four to eight percent of the market. Other important domestic players are Amstor (24 stores) and Rainford, the sector's leading importer.

Retail Group operates the Silpo chain of supermarkets (which numbered 149 in September 2010); the Fora chain of discount stores (128 by September 2010); and the Fozzy C&C hypermarket chain (five). Furshet is the only other nationwide retailer. There were 98 Furshet supermarkets in the country in March 2010. ATB Market operated 457 stores in September 2010.

The Ukrainian retail market is still modernizing. Retail sales have risen strongly over the past decade, reaching US\$ 73.3 billion in 2008, more than twice as high as in 2005 in value terms. After decreasing to US\$ 58.8 billion in 2009, growth in volume terms continued increasing in 2010 and 2011. The retail trade of food and beverage products generated US\$ 54.3 billion in 2011, accounting for 64.4 percent of the total retail turnover. The wholesale of foodstuffs accounts for about 20 percent of total wholesale trade turnover.

Table 1. Key Indicators of Retail and Domestic Market in Ukraine over time

Item/Year	2000	2005	2006	2007	2008	2009	2010	2011
Retail sales (Billion US\$)	15.0	34.6	42.7	56.5	73.3	58.5	66.8	84.3
Retail sales: food (Billion US\$)	10.4	23.3	28.6	37.4	48.1	38.1	43.4	54.3
Retail sales growth (% pa)	2.5	23.8	11.7	17.1	8.1	1.9	6.4	17.3
EIU retail and wholesale network rating (5=high)	1.0	1.0	1.0	1.1	1.0	1.0	1.1	1.3

Source: The Economist Intelligence Unit, 2012. Data is based on Planet Retail - www.planetretil.net; EIU forecasts

Business environment and competitiveness

SME development: According to the OECD SME Policy Index assessment 2012²⁶, the institutional framework for SME policy in Ukraine is in the process of being restructured, with a new institution ready to take over responsibility for SME policy implementation. A new agency responsible for SME policy was re-established after a restructuring process, but its effectiveness will depend on its mandate and financing, which are yet to be determined. Ukraine's commitment to SME development has resulted in some deregulation and simplification of administrative procedures. The overall business environment, however, continues to inhibit private sector growth and SME operations and there is no coherent approach to SME policy making. Ukraine provides advisory and financial support for start-ups through publicly funded schemes and it has developed the necessary institutional structure and documentation to support the development of a comprehensive innovation strategy. The country has made positive efforts to promote entrepreneurship in secondary education and to ensure quality assurance in training and enterprise skills. SMEs account for 99.4 percent of all active enterprises and for 58.1 percent of employment and 51.2 percent of turnover.

Business environment: According to the Doing Business Report²⁷, Ukraine is one of the top 10 economies that improved the most across three or more areas measured by *Doing Business* in 2011–2012. The economy was ranked 137 (out of 185 economies) in 2012 (3 points down compared to 2010 and 13 points down compared to

26 OECD (2012) Eastern Partner Countries 2012. Progress in the implementation of the small business act in Europe. SME Policy Index. Supported by EC, ETF, EBRD, CEI.

27 WB/IFC (2012) Doing Business 2013: Smarter Regulations for Small and Medium-size Enterprises. 10th edition. Washington, USA

2006). Trading across the borders is ranked at 145, paying taxes at 165, protecting investors at 117, getting credit at 23 and starting a business at 50.

Ukraine has increased the ease with businesses can be started by eliminating the minimum capital requirement for company incorporation and the requirement to have incorporation documents notarized. It has made paying taxes easier by implementing electronic filing and payment for medium-size and large enterprises; it has made property transfers faster by introducing an effective time limit for processing transfer applications at the land cadastre in Kiev, although there are still a large number of procedures (10 compared to one in Georgia). In 2012, Ukraine made cross border trading more difficult by introducing additional inspections for customs clearance of imports. Ukraine also amended its legislation on enforcement, introducing more guarantees for secured creditors. Ukraine is ranked 20 out of the top 50 overall most improved economies (by 12 percent) since 2005 as well as by 31 percent in paying taxes. However, the country is still among the 10 most difficult economies in terms of dealing with construction permits and getting electricity.

Tax relief: According to a PwC report²⁸, Ukraine is the third hardest place in the world to file tax returns. In 2012, Ukraine made paying taxes easier and less costly for firms by revising and unifying tax legislation, reducing corporate income tax rates and unifying social security contributions. In 2011, the tax compliance and tax burden on companies was eased by introducing an electronic filing system for VAT and by lowering the social tax. Ukraine also has low tax rate for individuals (15 percent and 17 percent). The country has a changeable tax system, and legislative amendments are frequent. The new Tax Code came into force in 2011. General VAT is 20 percent but zero percent VAT applies to the export of goods and related services. At present, the corporate income tax (CIT) is charged at a flat rate of 21 percent. The most recent changes to the Ukrainian tax legislation provide a gradual reduction in CIT rates, as follows: 19 percent from 1 January 2013 to 31 December 2013 and 16 percent from 1 January 2014 onwards. As of 2012 Ukraine is also a party to 69 double tax treaties (some with zero withholding tax on interest, dividends and royalties).

Research & Development and innovations: Ukraine has continued to update and modernize the legal base and funding structure for research and innovation. Ukrainian state expenditure on R&D in agricultural sciences grew from UAH 136 million (EUR 27 million) or 0.06 percent of GDP in 2002 to UAH 618 million (EUR 80 million) or 0.065 percent of GDP in 2008.²⁹ Required investments and activities in R&D of new technologies and products in agro-industry still remain low. State-owned enterprises continue to be the primary beneficiaries of government support for innovation and R&D.

Competitiveness: According to the Global Competitiveness Report 2012-2013, Ukraine is at a transition stage from 1 to 2 and it received a score of 73 overall on the Global Competitiveness Index among 144 economies (89 in 2010-2011 among 139 countries). Ukraine is ranked 71 for Innovation, 91 for Business sophistication factors, and only 136 (score 3.0) for agricultural policy costs³⁰. The five biggest barriers to doing business in Ukraine are as follows: access to financing, corruption, tax regulations, tax rates and inefficient government bureaucracy.

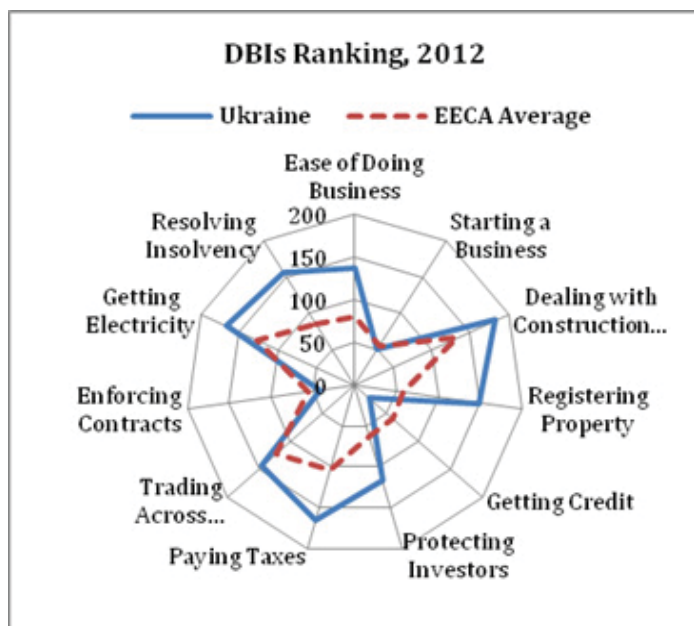
28 PwC (2012) Paying Taxes 2012. The Global Picture, PriceWaterHouseCoopers supported by WB and IFC

29 German-Ukrainian Policy Dialogue in Agriculture Institute for Economic Research and Policy Consulting (2010) The Agricultural Knowledge and Information System in Ukraine – Call for Reforms. Policy Paper Series. Kyiv

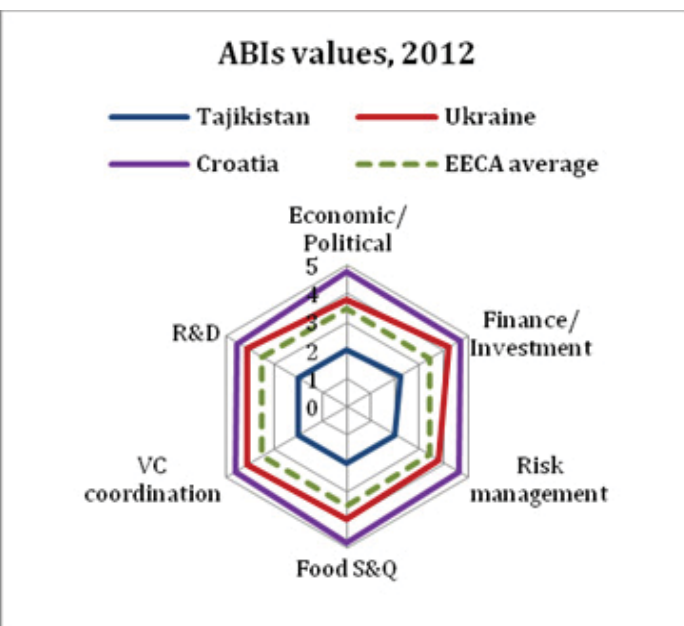
30 Agricultural policy costs: How would you assess the agricultural policy in your country? [1 = excessively burdensome for the economy; 7 = balances the interests of taxpayers, consumers, and producers] | 2011-12 weighted average

Ranking Ukraine

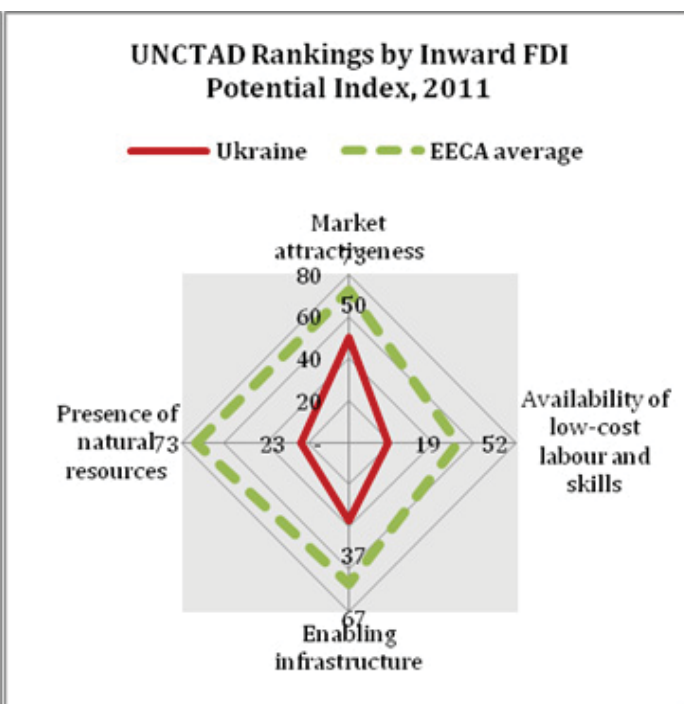
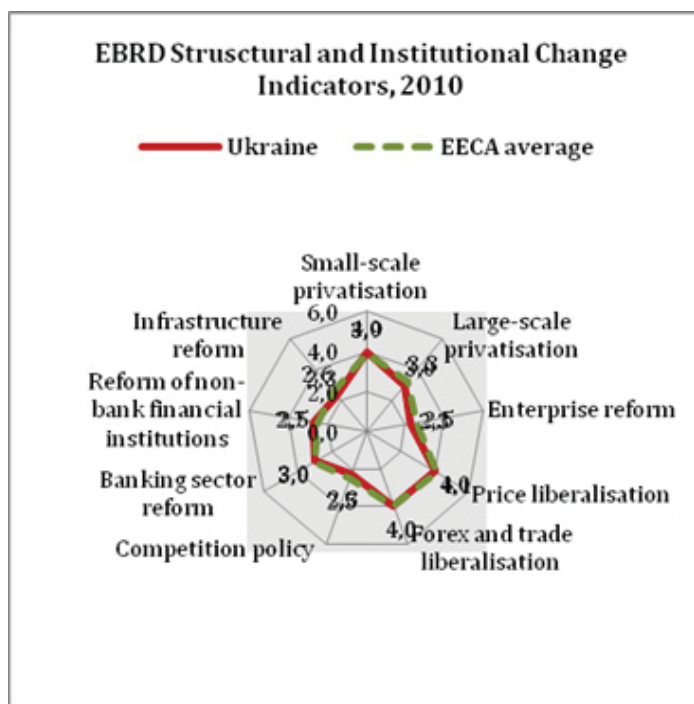
Doing Business Indicators Ranking in 2012



Agribusiness Indicators Values in 2012



Source: Author's estimations and calculations; WB/IFC Doing Business Rankings online, accessed in October 2012



Source: EBRD database; UNCTAD; Author's calculations of EECA average

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