

UKRAINIAN FOOD AND BEVERAGES INDUSTRY

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1. GENERAL OVERVIEW

Per representation of the World Bank, Ukraine's economy has been hit hard by the COVID-19 outbreak. Overall, GDP declined by 11.4% year-on-year (y-o-y) in the second quarter of 2020, causing GDP to decline to 6.5% y-o-y in the first half of the year. However, the negative impact appears to be less severe than initially anticipated, as the full-scale lockdown lasted only from mid-March to early May and has been replaced by an adaptive quarantine that has enabled many services (except passenger transport) to return to normal functioning. Domestic demand has also been supported by a recovery in real wages (+ 4.8% y-o-y in June compared to -0.4% in April) and continued remittance inflows. On the supply side, metals and mining as well as manufacturing have been significantly impacted by weak external demand.

Economic Outlook

As reported by the World Bank, the economy is expected to contract by 5.5% in 2020, as weakness in the first half of the year is only partly offset by a recovery in domestic demand in the second half and positive contributions from net exports. The baseline assumes a possible re-imposition of containment measures in response to a "second wave" (given that daily reported infections are still increasing) and a slower pace of reforms. Ukraine still expects to raise USD 2.9 billion in additional official financing (from the IMF, World Bank, and EU) in the remainder of the year. If these funds are delayed, the Government will have to contain spending or borrow more domestically.

Going forward, growth is expected to remain modest at 1.5% in 2021, rising to about 3.7% by 2023. The outlook depends on the duration of the health crisis and reforms that address bottlenecks to investment and safeguard macroeconomic sustainability. With the recent loss of reform momentum, fixed investment is expected to reach its pre-crisis level only at the end of 2022, and net exports (as import demand revives but the pace of export diversification remains slow) will continue to be a drag on growth in 2021.¹

Ukraine is naturally endowed with a large volume of fertile land and diverse climate zones that enable a broad range of agricultural production, as well as sustainable traditions of agro-production. This resource provides a good basis for developing the food and beverages (F&B) sector to take advantage of the fast-growing USD 10 trillion global market.

The Ukrainian market for food and beverages has shown a strong growth in recent years. With a population of about 41.7 million people, Ukraine is the second largest consumer market in Central and Eastern Europe, after Russia. Around 15% of the total annual industrial production of the Ukraine is from the food sector. Food production is a key part of Ukrainian

¹ <https://www.worldbank.org/en/country/ukraine/overview#3>

export policy. The food industry exports products such as cheese, dairy, sweets and alcoholic beverages (beer, wine and vodka) to Europe. The production of food additives (preservatives, emulsifiers, etc.) in Ukraine is not fully covered in the country so many of these ingredients are imported. Food production is closely connected to further development in the agricultural sector. Implementation of innovative technologies in production and manufacturing processes in both these fields may bring a major breakthrough and comprehensively increase the profitability of the sector.

Ukrainian food industry includes over 40 sectors, and the industrial food production is carried out by more than 5,000 small, medium, and large food processing enterprises that produce a wide range of food products. Every year, foreign direct investment in the food industry is about USD 3 billion, which is more than 25% of total direct foreign investments. Global giants that are well established in Ukraine include Mondelez, Nestle, Danone, PepsiCo, CocaCola, Carlsberg, Jacobs, East Balt Bakery, and Wim-Bill-Dann.

As reported in the **“Export Strategy for Food and Beverages Sector 2019-2023”²** Study by the Ministry for Development of Economy, Trade and Agriculture of Ukraine, the following **trends** in global food and beverage markets and the structure of the F&B sector in Ukraine have shaped the overall approach to the F&B strategy:

– *The high level of domination by large corporations in global grocery retail, food service and food manufacture* means that the Ukrainian F&B industry will have to focus on selling to the main distribution channels to have any significant impact. These corporations mostly require large quantities and flexible contracts and prices with short order times. In their turn, F&B producers strive to ensure a sustainable uninterrupted supply of semifinished food products and ingredients based on 10-year investment plans.

– Increasingly stringent *hygiene and food safety standards* mean that F&B manufacturers at all stages of the value chain must have high-level quality systems in place to ensure that their products are acceptable in the export market. Costs of compliance are to be into the F&B business model.

– Consumers’ *evolving environmental concerns* mean that many retailers want to source nearby and deliver by road. Ukraine can offer the EU (the biggest retail grocery market in the world) a range of products to meet such consumer demands, but producers will have to monitor systems of CO₂ calculations and follow the trends in packaging requirements and the use of alternatives.

– Growing *trends towards healthier and organic foods* mean that Ukrainian F&B producers will need to adapt their product portfolio, recipes and contents (for instance, lowering fats and offering safer foods to those who suffer from allergies) to respond

² The Food and Beverages Strategy was initiated by the Ministry of Economic Development and Trade of Ukraine in the framework of «Export Strategy of Ukraine: Strategic Trade Development Roadmap for 2017—2021 and Action Plan» implementation, elaborated with the support of the International Trade Centre and Non-Governmental Union «Foundation for Support of Reforms in Ukraine» and with a financial contribution from the German government through Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ) GmbH. Web-link to the document: <https://www.me.gov.ua/Documents/Download?id=83e2e520-ed97-412e-9c8e-cdde6b76eb4f>

to trending consumer demand and strengthen the use of organic certification by accredited bodies when targeting these market segments.

- *Gross agricultural production in Ukraine is quite significant (18%–19% of GDP) and employs almost 3 million workers, approximately 18% of the working population of Ukraine.*

- *Agricultural production has increased by 6.8% in the last 4 years to UAH 268.6 billion in 2018 (74% crop and 26% livestock production).*

- *The main agricultural exports are commodities: sunflower oil representing 22% (Ukraine is a world leader); 16% for wheat; and 19% for corn. Other important exports are soybeans, sunflower meal, barley and poultry.*

2. FOOD PROCESSING INDUSTRY

In Ukraine's food processing industry vegetable oils dominate the industry, accounting for 24% of all Ukraine's food products exports. Along with the vegetable oil, there are significant opportunities in vegetable and fruit processing. Ukraine is the leading producer of tomato paste. Ukraine is also one of the five largest European suppliers of apple concentrate. Ukraine's share of global potato production is 6.2% and the with its GMO-free potato, Ukraine is well positioned to develop a strong position in the potato flour and starch market and to increase the volume of potato exports to the EU.

Large vertically integrated poultry producers, assisted by international financial institutions, are expected to expand and increase their market share. This growth is expected to be driven by exports to the European Union, Middle East, and Asia and harmonization with EU standards. The level of concentration in Ukraine's meat processing sector is high, with the top 20 companies accounting for 10% of cattle livestock, 28% of pig livestock, and 58% of poultry livestock.

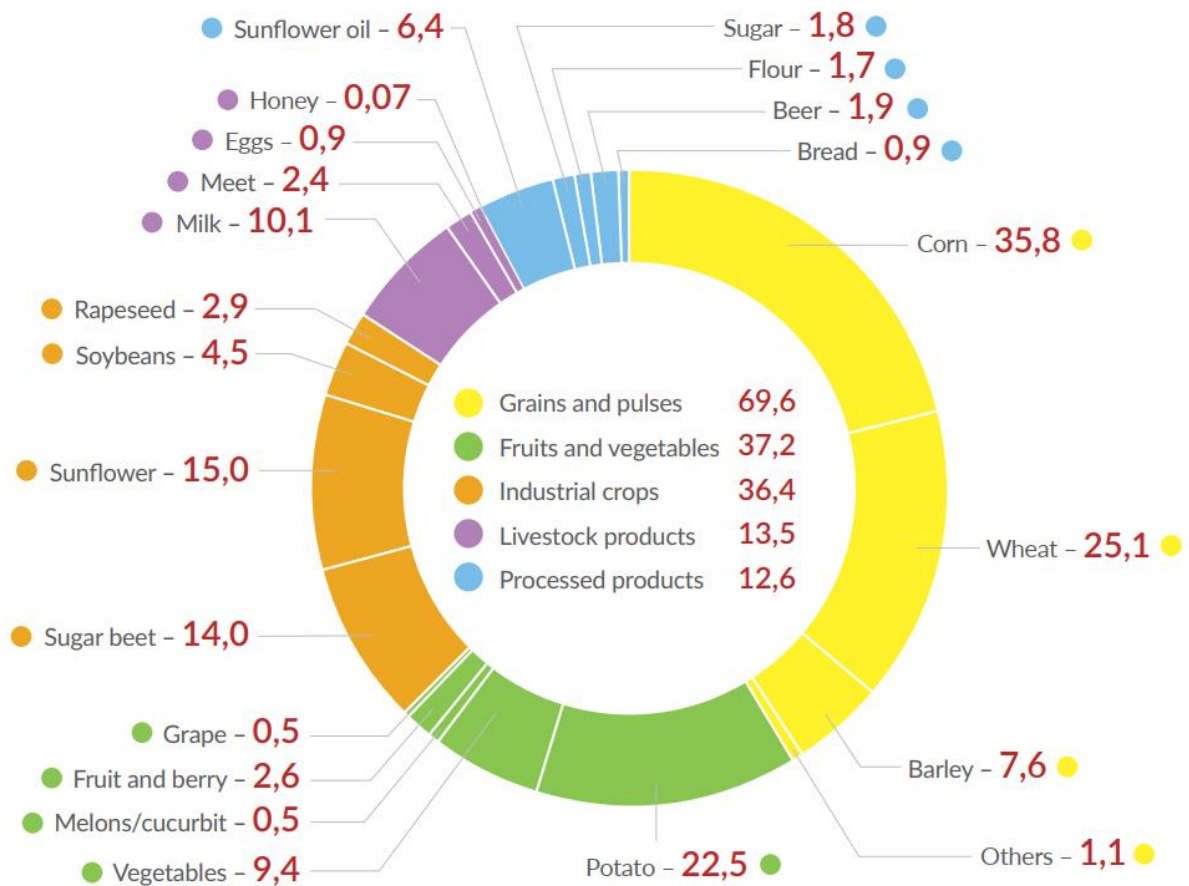
According to data from the State Statistics Service of Ukraine, the index of industrial production of foodstuffs, beverages and tobacco products in Ukraine (data exclude the temporarily occupied territory of the Autonomous Republic of Crimea, the city of Sevastopol and a part of temporarily occupied territories in the Donetsk and Luhansk regions) in January – September 2020 was 93.3%. The index of industrial production by categories in January – September 2020 y-o-y: manufacture of food products – 99.3%; manufacture of vegetable and animal oils and fats – 106.6%; manufacture of dairy products – 96.8%; manufacture of grain mill products, starches and starch products – 93.6%; manufacture of bakery and farinaceous products – 91.8%; manufacture of beverages – 95.0%. For the monthly breakdown please see Annex 1.

Regional breakdown of food and beverages sector production



Source: Infographic report by the [Ministry for Development of Economy, Trade and Agriculture of Ukraine](#), Trade with Ukraine, Foundation for Support or Reforms of Ukraine, Deutsche Zusammenarbeit, GIZ

Production of main food and beverages products, 2018, million tons



Source: Infographic report by the [Ministry for Development of Economy, Trade and Agriculture of Ukraine](#), Trade with Ukraine, Foundation for Support or Reforms of Ukraine, Deutsche Zusammenarbeit, GIZ

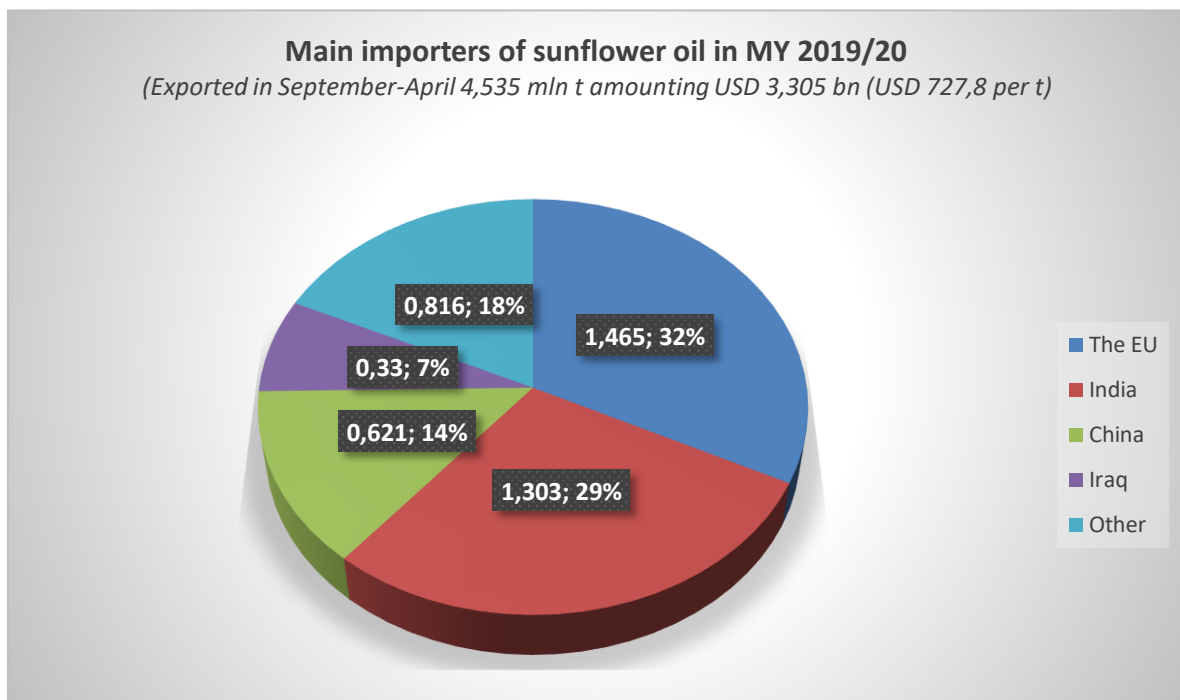
The domestic market of food products is provided in full. In addition, the availability of sufficient capacities for the production of food and raw materials stocks will continue to ensure saturation of the domestic market according to its needs. The long term perspectives in Ukrainian food industry are positive. Rising incomes and structural changes in consumption patterns will create more demand for food products with higher added value and better quality. One of the goals of the food processing industry is to enlarge its product range and gain a higher export share.

For more details on the legislation of food processing industry please refer to **Conducting Business in Ukraine 2020 guide**³ by Baker&McKenzie.

³ <https://www.bakermckenzie.com/en/insight/publications/guides/doing-business-in-ukraine>

2.1. VEGETABLE OIL INDUSTRY

Vegetable oil sector is an export-oriented sector with increasing demand in the world market. The basis of export is crude sunflower oil. Per representation of the Ukroilprom Association, since the season's start, as of May 1, 2020, Ukraine intensified exports of vegetable oils by 10% compared to the corresponding period of 2018/19, meal by 11%. In September-April 2019/20, the EU countries imported the principal volumes of Ukrainian sunflower oil accounting for 32.3% of the total exports. Among the key markets in the period are France — 8.8%, Poland — 7.7% and Spain — 6.3%.⁴

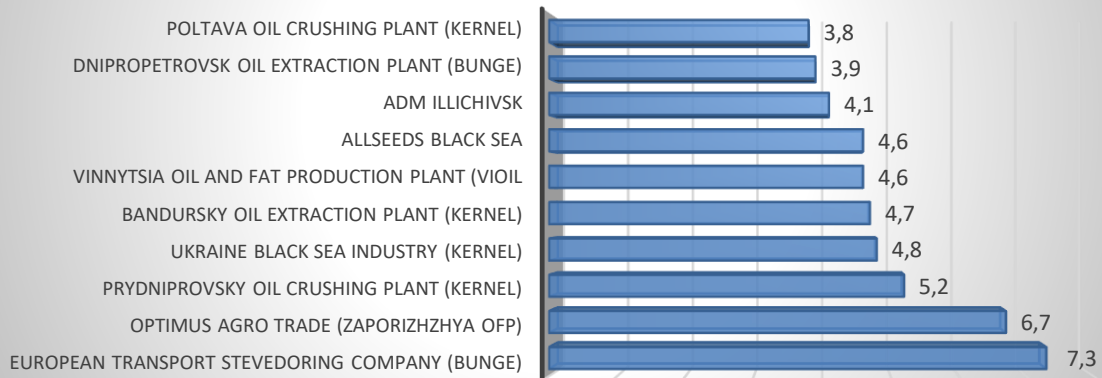


Source: Ukroilprom Association

The EU countries in September-April 2019/20 imported 17.3% of the total Ukrainian refined sunflower oil exports. The largest shipments were proceeded to France (5%), Poland (4.4%) and the Netherlands (3.4%). The US is also increasing imports of refined sunflower oil this season. However, India and China remain the major importers of Ukrainian sunflower oil. Upon opening of the Chinese market, Ukraine's supplies to the country reached 36.5% of the total exported volume. The share of the EU countries makes 29.2%. In the reporting period, India also became one of the main importers of Ukrainian sunflower meal.

⁴ <https://ukroilprom.org.ua/news/osnovni-napryamky-eksportu-ukraynskoj-olij-ta-shrotu-u-201920-mr-stanom-na-01-05-2020-roku-201/>

**Top-10 unrefined sunflower oil producers
September-July MY 2018/19, % of the market**

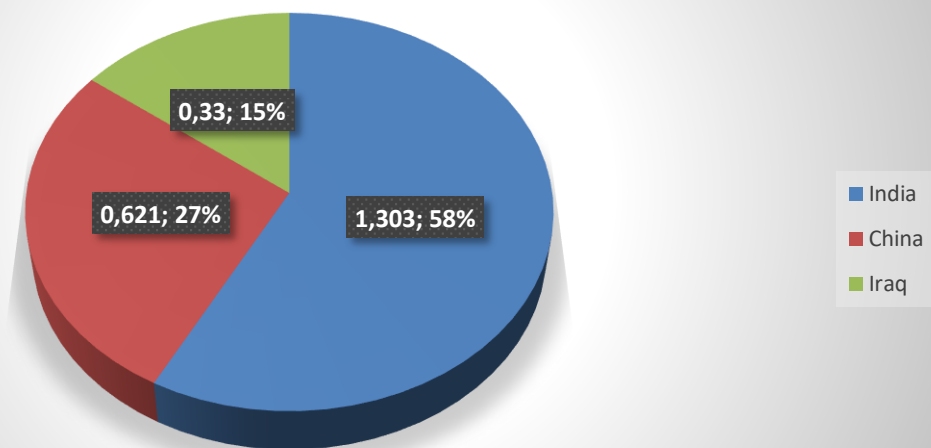


Source: Infographic report “Ukrainian Agribusiness MY 2018/19” by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, Aequo, Baker Tilly, American Chamber of Commerce

The EU countries are among the main importers of other types of Ukrainian oil and meal. At the same time, the share of other countries is growing, in particular, China, India, Turkey, etc.

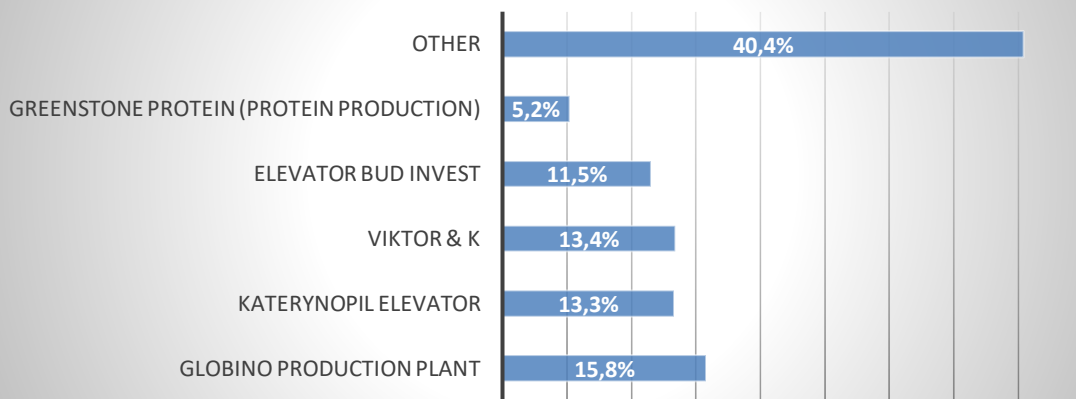
Main importers of soybean oil in MY 2019/20

(Exported in September-April 229,6 thsd t amounting USD 159,14 mln (USD 693,1 per t)



Source: Ukroilprom Association

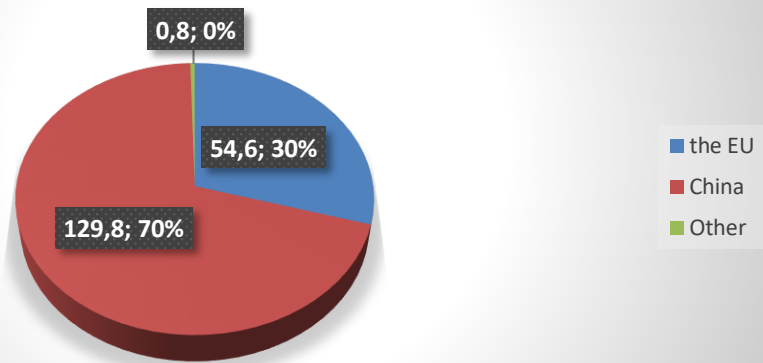
Top-5 soybean oil producers in MY 2019/20, %



Source: Infographic report "Ukrainian Agribusiness MY 2019/20" by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, BakerTilly

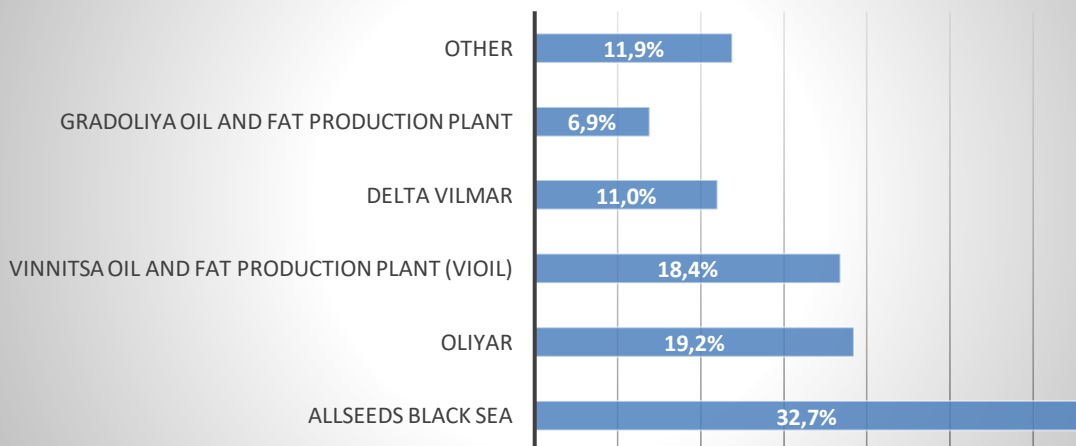
Main importers of rapeseed oil in MY 2019/20

(Exported in July-April 185,2 thsd t amounting USD 143,3 mln (USD 795,4 per t)



Source: Ukroilprom Association

Top-5 rapeseed oil producers in MY 2019/20, %

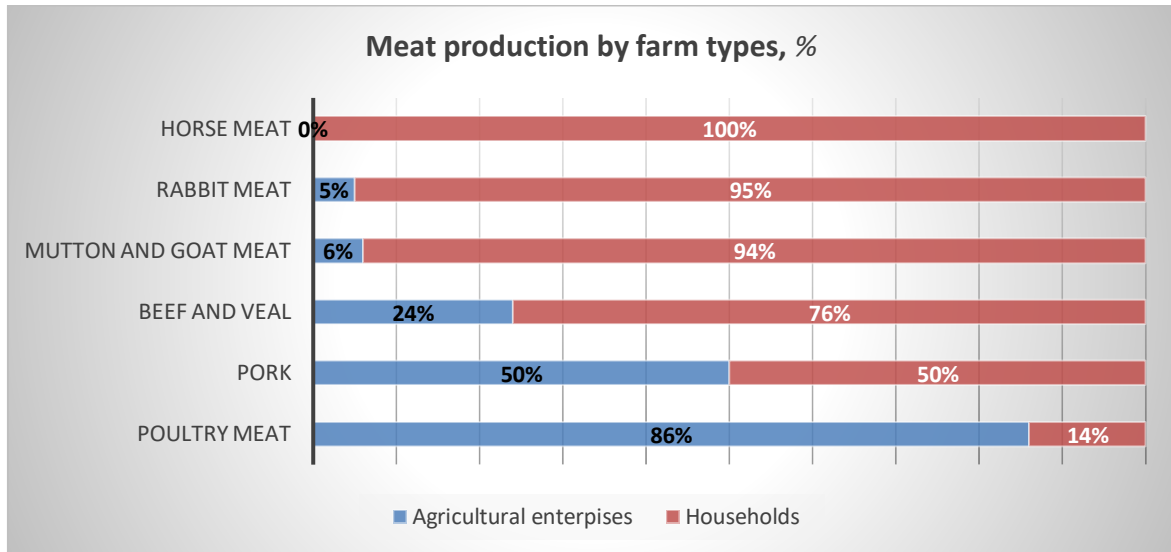


Source: Infographic report "Ukrainian Agribusiness MY 2019/20" by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, BakerTilly

2.2. MEAT INDUSTRY

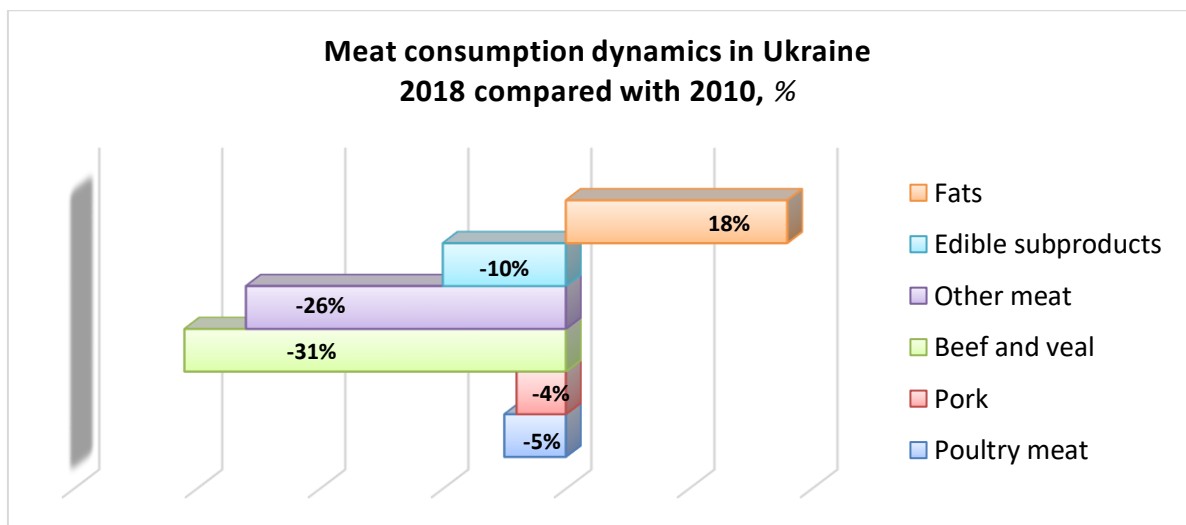
Per representation of Latifundist and the State Statistics Service data, sales of livestock (in live weight) for slaughter in the first half of 2020 amounted to 1.9 million tons, 0.3% higher y-o-y (first half 2019: 1.89 million tons). The production of meat in live weight in specialized agricultural enterprises of Ukraine increased by 2.1% to 1.33 million tons compared to 1.3 million tons in the first half 2019. The production of live weight meat in the reporting period in household farms declined by 3.9% to 565.7 thousand tons.⁵

In the total structure of meat output, the industrial sector accounts for more than 80% in poultry and 50% pork sectors.



Source: Source: Infographic report “Ukrainian Agribusiness MY 2018/19” by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, Aequo, Baker Tilly, American Chamber of Commerce

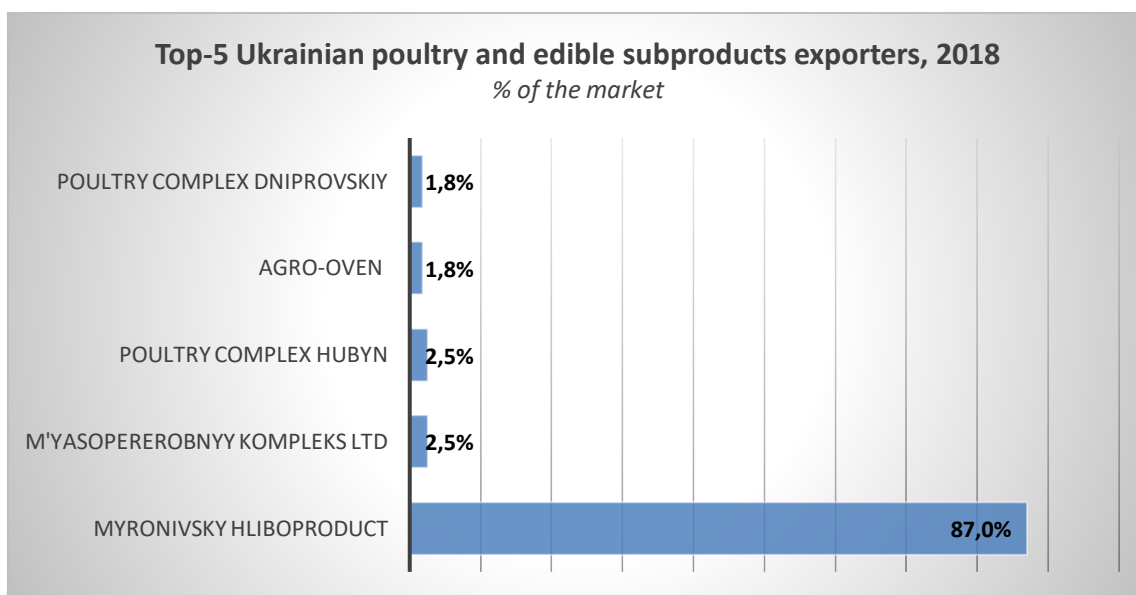
The consumption dynamics of different types of meat during the last decade has changed.



Source: Infographic report “Ukrainian Agribusiness MY 2018/19” by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, Aequo, Baker Tilly, American Chamber of Commerce

⁵ <https://latifundist.com/en/novosti/51531-v-ukraine-uvlichilos-proizvodstvo-myasa-za-yanvar-iyul-2020-g>

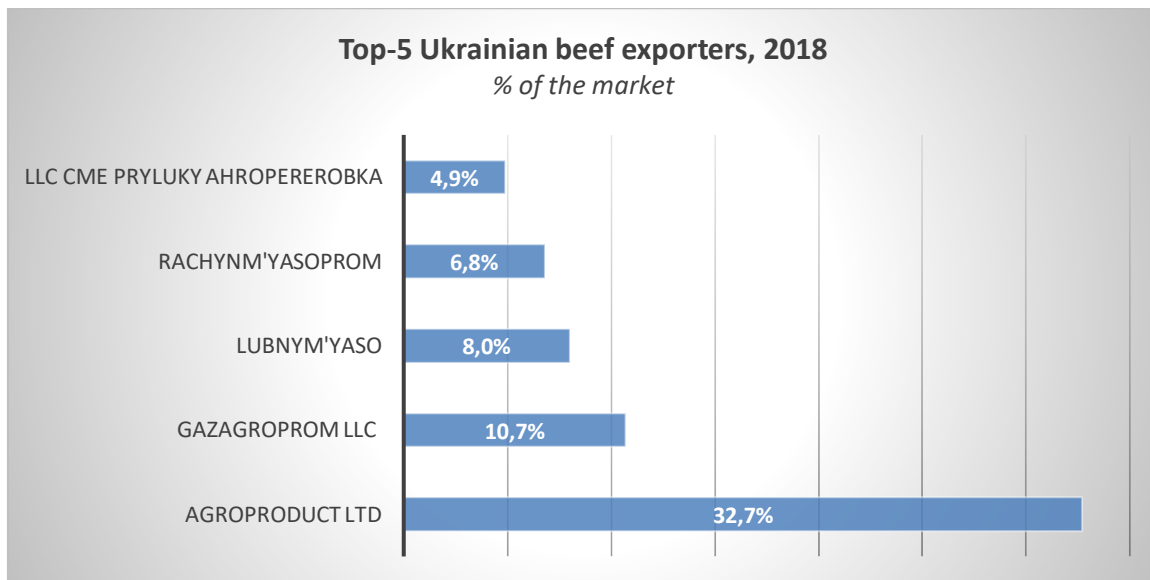
In Ukraine, large industrial poultry meat producers dominate Ukraine’s chicken production sector, growing 1% in 2020, reaching 89% of chicken meat production. Less than 9% is concentrated in a large number of small farms. Most large and medium-sized producers are vertically integrated companies, and usually grow their own feed crops, operate their own feed mills, hatcheries, broiler production facilities, slaughter and distribution.



Source: Infographic report “Ukrainian Agribusiness MY 2018/19” by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, Aequo, Baker Tilly, American Chamber of Commerce

Per representation of the Ukrainian Stockbreeders Association, low purchasing power of Ukrainians in recent years has caused the reorientation of most buyers for poultry meat. Demand for beef in the domestic market has fallen. Domestic owners of cattle prefer to focus on the production of milk, and the bulls that are born are not fattened, but immediately allowed to be slaughtered. This leads to a gradual decrease in the number of cattle in the country.

The majority of production capacities are concentrated in the western regions of Ukraine. Favorable climate, accessibility of forages and the presence of extensive pastures contributed to the fact that the industry leader was the Ternopil region. It produces 22.6% of fresh and 30.1% of frozen beef from the total Ukrainian volume.

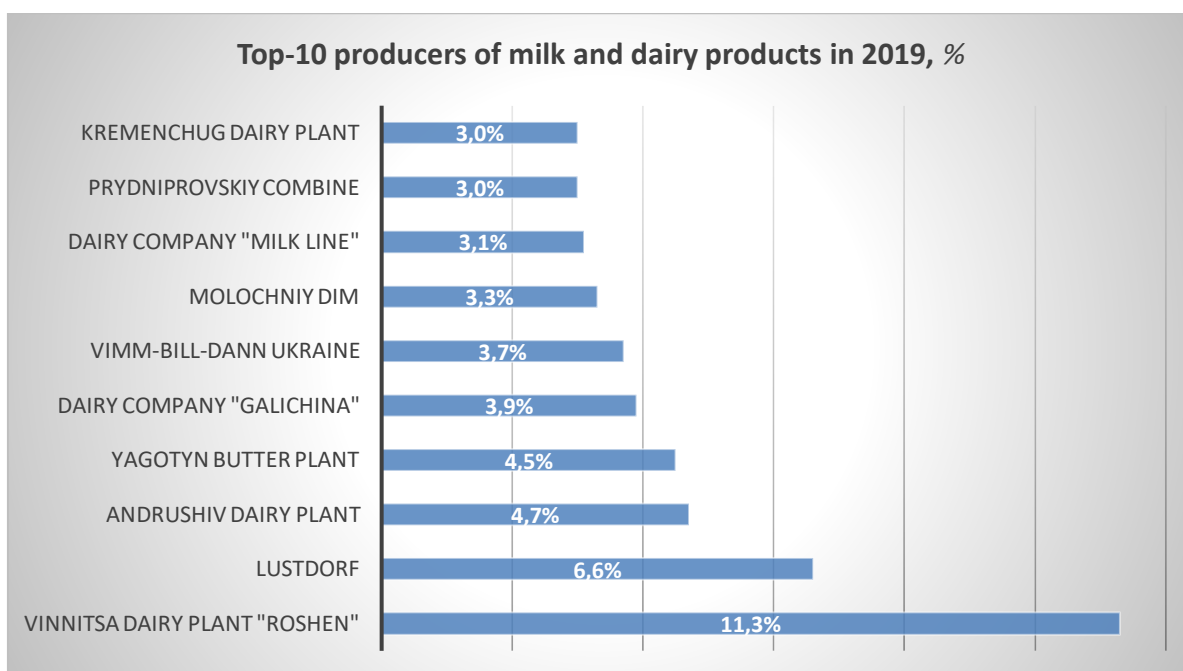


Source: Infographic report “Ukrainian Agribusiness MY 2018/19” by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, Aequo, Baker Tilly, American Chamber of Commerce

Per representation of Latifundist, in 2019 chilled and frozen beef production in Ukraine dropped by 20% y-o-y to 61.8 thousand tons. Per representation of the Association of Pig Breeders of Ukraine, in the period January-October 2020, pork export from Ukraine totaled 2.3 thousand tons amounting to USD 5.09 million, increasing 27% y-o-y. Export of pork co-products is developing faster. Thus, the external deliveries of frozen pork co-products (except for liver) are 2.4 times higher from the current pork export: in January-October, 5.48 thousand tons were exported at a total cost of USD 3.2 million.

2.3. DAIRY INDUSTRY

As reported by the State Statistics Service and Latifundist, in January-July 2020, milk production in Ukraine decreased by 3.9% to 5.54 million tons compared to the corresponding period in 2019 (5.76 million tons). In the reporting period, agricultural enterprises reduced milk production by 1.1% y-o-y to 1.63 million tons (January-July 2019: 1.65 million tons). In accordance with the statistical data, milk production in households fell by 5.1% to 3.9 million tons (seven months 2019: 4.11 million tons). In the total structure of milk production, the industrial sector accounts for 29.5%, households 70.4%.



Source: Infographic report "Ukrainian Agribusiness MY 2019/20" by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, BakerTilly

The cost of milk produced by agricultural enterprises has approached record levels with price range 9.0–10.95 UAH/kg. Prices for milk produced by households also increased, and this was expected. Seasonality of production in this category of producers is even more pronounced, plus recently there has been an increase in prices for cheese products and butter — the products, which create main demand for such sort of raw milk. Therefore, the demand has also increased. In mid-September, the average price range for raw milk produced in households is 5.5–6.0 UAH/kg excluding VAT.

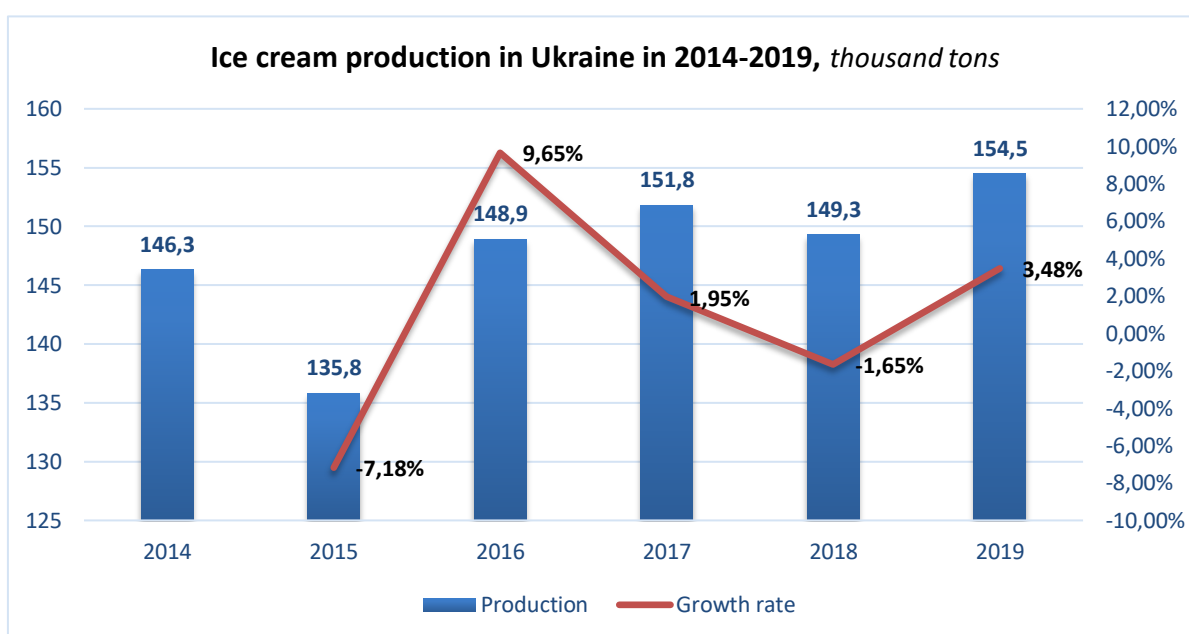
Production, export and import of dairy products, 2019, thousand tons

Category	Production	Export	Import
Milk cream	946.6	61	6.2
Cheese	186.8	7	3.4
Butter	89.3	18.3	3.4
Milk whey	59.9	24.1	3.2
Dry milk	51.5	30.2	8.6

Source: Infographic report "Ukrainian Agribusiness MY 2019/20" by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, BakerTilly

According to the State Customs Service of Ukraine, last year the export of cheeses from Ukraine in monetary terms was 12.7% less than a year earlier and amounted to only USD 26.9 million. At the same time, cheese imports grew by 60% and exceeded exports by four times. That is, large Ukrainian cheese producers are inferior to foreign counterparts not only in the international but also in domestic market.

The ice cream market in Ukraine in 2019 returned to pre-crisis levels in 2013. Sales developed both in the domestic market and for exports. Imports do not play a significant role, and despite the fact that the figures are growing, it is 1% of total ice cream consumption. The potential for development still exists. In Ukraine, per capita consumption of ice cream per year is 4 times less than in the EU. The main factor influencing the ice cream market is still the level of income.

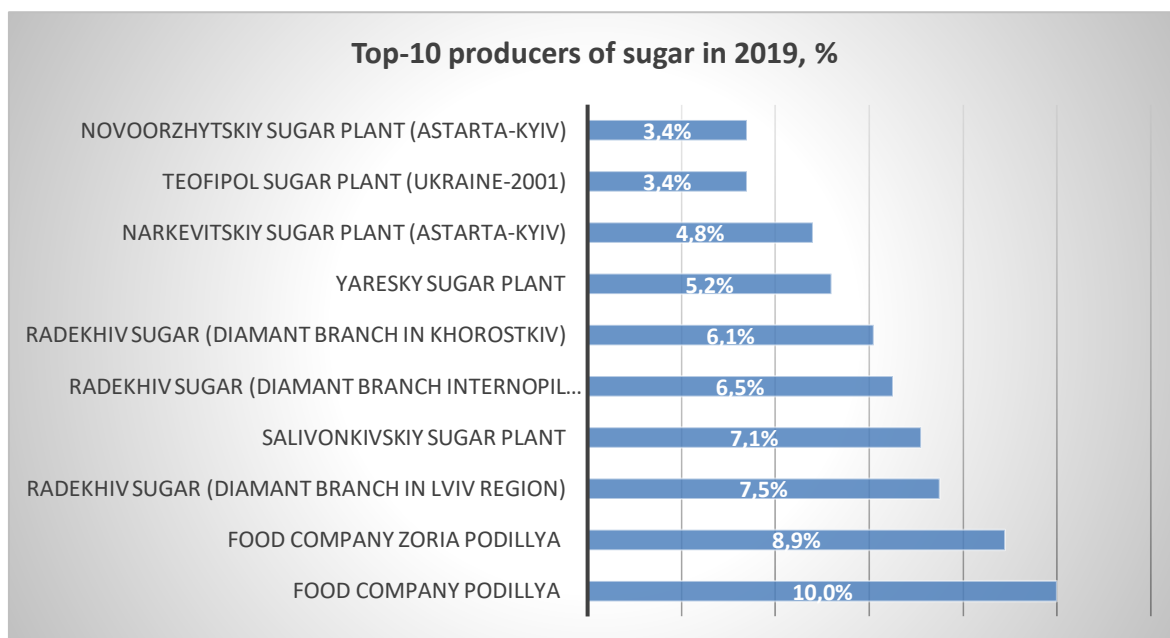


Source: State Statistics Service of Ukraine, Pro Consulting

The dynamics of domestic ice cream production for the period from 2014 to 2019 showed a slight but stable growth since 2015. Such dynamics is due to the still affected economic and political situation in the country. One of the main features is the seasonality of the product – the demand for ice cream increases in the warmer months of the year. In this regard, in spring and summer the production of ice cream increases. The analysis of the ice cream market shows that the peak of ice cream production in Ukraine is in June.

2.4. SUGAR INDUSTRY

Per representation of the State Statistics Service of Ukraine and Latifundist, sugar beet area in Ukraine in 2020 totals 209.01 thousand hectares. Sugar production in 2020/21 is forecasted by the National Association of Sugar Producers of Ukraine experts at the level of 1.2-1.3 million tons, which is 15% less y-o-y. However, this volume satisfies domestic demand. Sugar carryovers at the beginning of 2020/21 were estimated at 60-70 thousand tons at the processing enterprises and 40-50 thousand tons at the wholesale and retail trade facilities. In 2020, 33 sugar plants are expected to start the production season, which is doubling the last year's number. Sugar export shipment in the period of January-September 2020 reached thousand tons for the amount of USD 36.9 million.



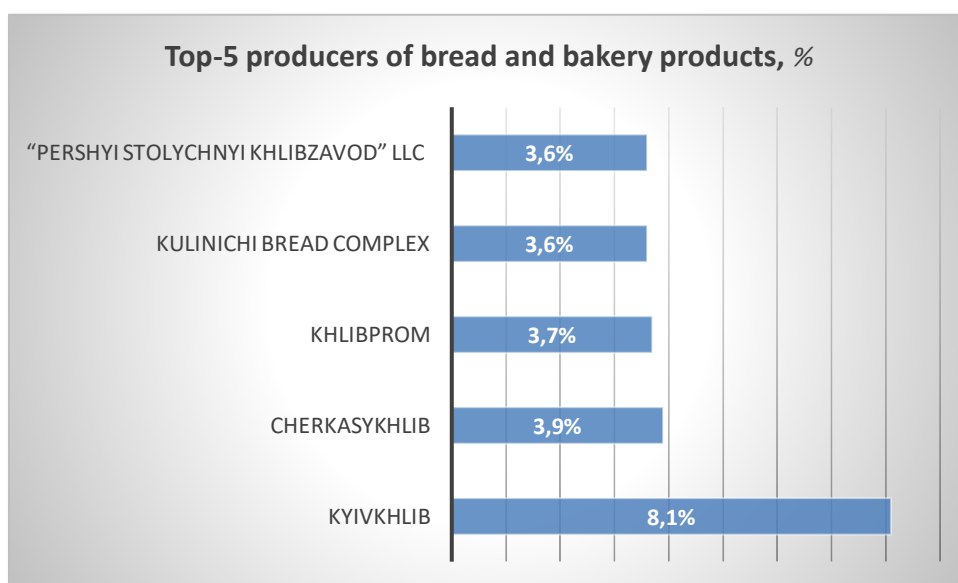
Source: Infographic report "Ukrainian Agribusiness MY 2019/20" by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, BakerTilly

As reported by Latifundist, sugar exports in the period of January-September 2020 reached 98.05 thousand tons for the amount of USD 36.9 million. This volume is 65% lower from the corresponding period of the previous year (9 months 2019: 219.9 thousand tons, USD 79.3 million). In accordance with the data of the State Customs Service of Ukraine, the key markets in the reporting period were:

- Turkey: USD 8.87 million (24.05%) of the total supply;
- Libya: USD 3.26 million (8.84%);
- Palestine: USD 3.26 million (8.82%);
- Other countries: USD 21.5 million (58.28%).

2.5. BREAD, BAKERY AND CONFECTIONERY INDUSTRY

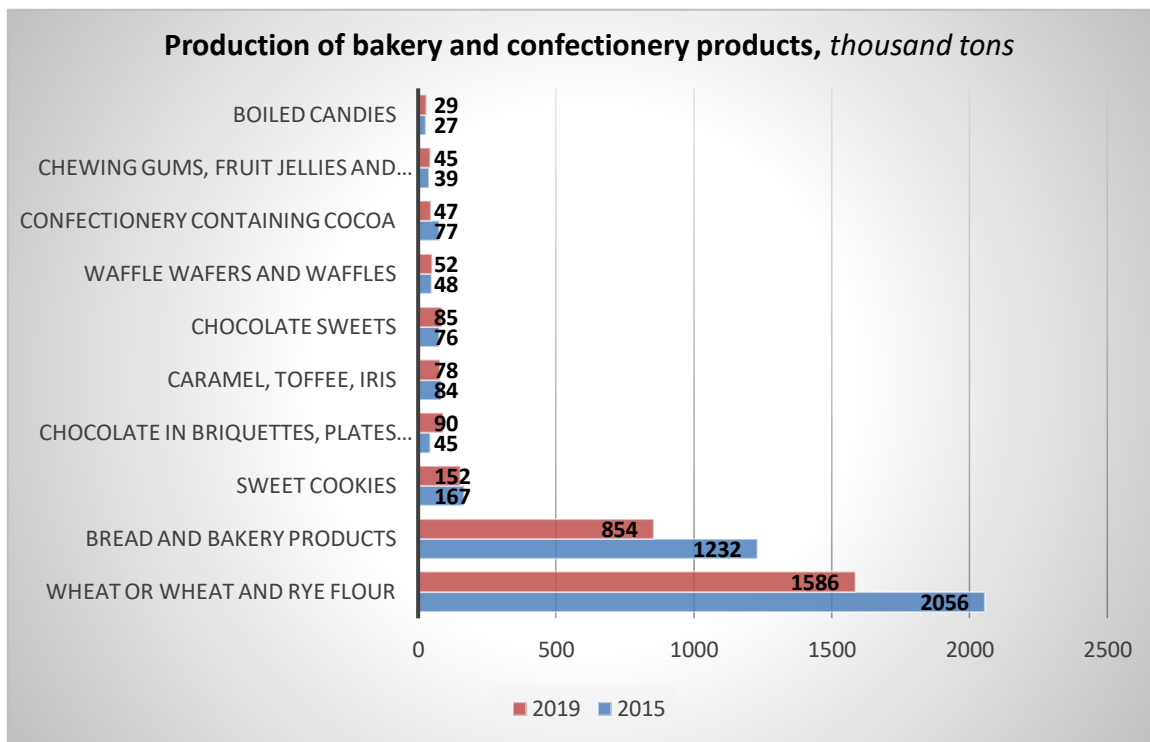
The production of bakery and confectionery products in Ukraine in 2018 officially included about 750 companies. Due to the low concentration of production, the largest producers in the industry are located in the regions with the highest consumption of products. There are no clear leaders in the market of bakery and confectionery products, the market share for producers of most types of products does not exceed 10%. Competitors of national producers are local operators, retail chains with their own bakeries, as well as in the cake segment - public and private catering companies. Small producers working under the simplified taxation system receive financial advantages over large producers.



Source: Infographic report "Ukrainian Agribusiness MY 2019/20" by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, BakerTilly

The production of Ukrainian bakers consists of more than 70% of products. Almost 20% of bakery products account for waffles and cookies, a little more than 4% – for muffins. Other confectionery products together fill about 5.5% of the market. The bakery segment is dominated by bread made from wheat flour or with the addition of rye. Almost 25% of the market are various rolls, and non-traditional types of bread account for only 2% of output. The majority of the population buys traditional types of bread. In large cities, baguettes and other types of bread have become popular – protein, unleavened, with additives etc. The rating of consumer preferences has approximately the same values each year. Local companies are trying to bring more new products, therefore popularity for non-traditional breads is growing.

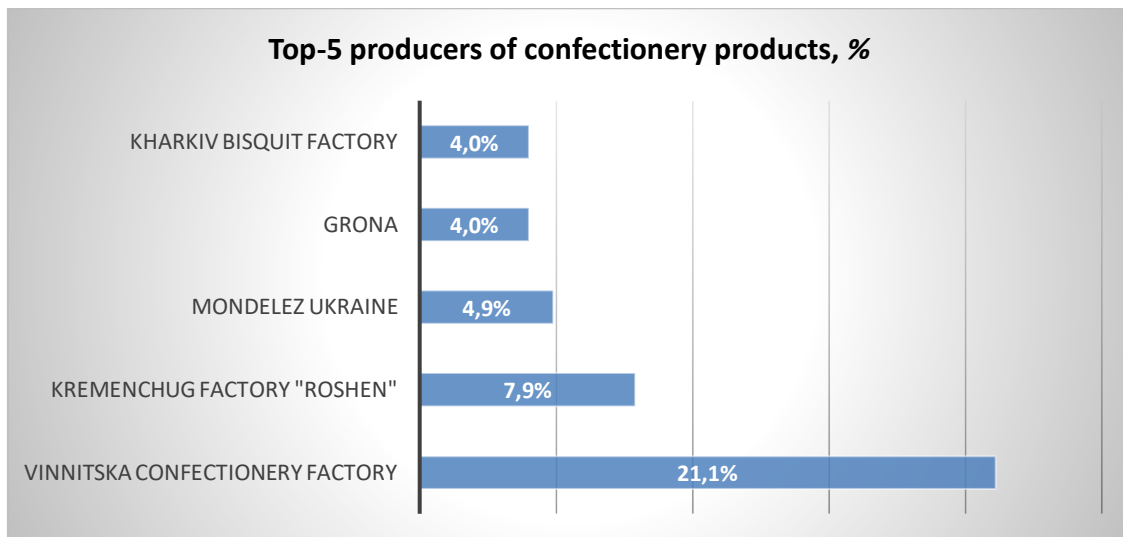
In 2019, the total production of bread and bakery products in Ukraine amounted to 854 thousand tons, of which 1.5 thousand tons made up diet bread. Producers of "healthy" bread can be divided into two groups: those who are purposefully engaged in the production of healthy foods, and those who include such products in their range.



Source: Infographic report “Ukrainian Agribusiness MY 2019/20” by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, BakerTilly

Per representation of Pro-Consulting agency, over the last 4 years there has been a steady decline in production. One of the main problems of the Ukrainian bread and bakery market is the large shadow segment, which hinders the development of fair competition in the market. The market is almost entirely filled by domestic products, due to the short shelf life and complexity of transportation. Exports in the segment are growing. The main consumers of Ukrainian bread and bakery products are the United States of America. The dynamics of imports is three times higher than the growth rate of exports. 99% of all imported products are exported to Ukraine from the EU.

The confectionery market in Ukraine has a high level of competition and a large number of confectionery companies, which assumes a wide range of products that are dynamically updated and meet the needs of consumers.

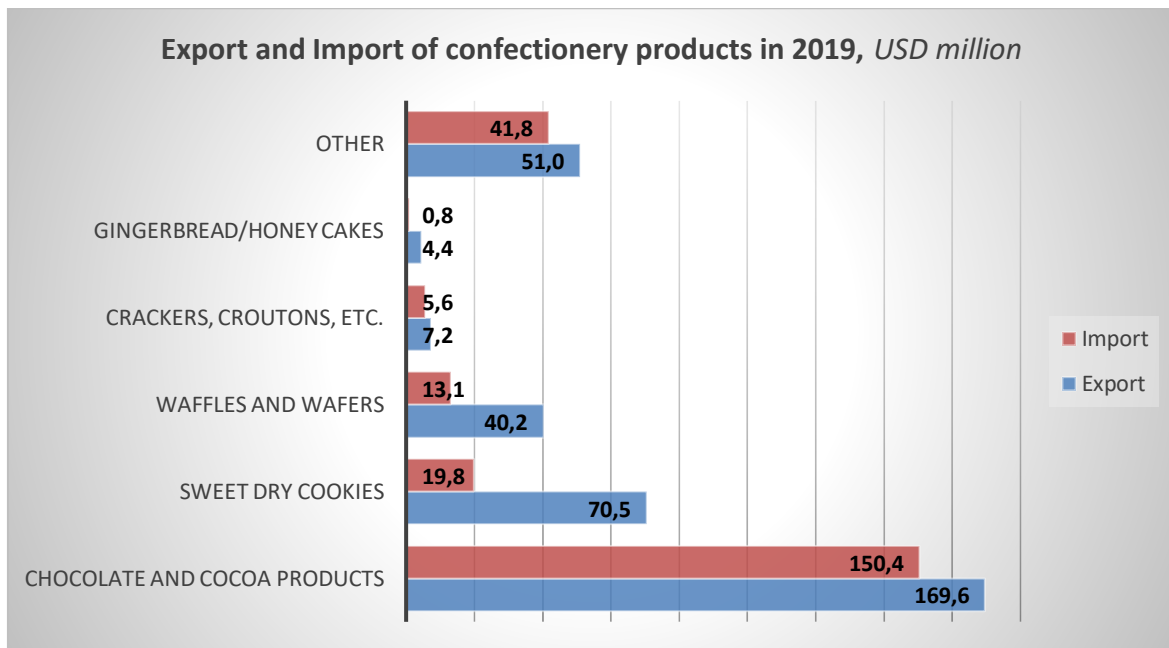


Source: Infographic report "Ukrainian Agribusiness MY 2019/20" by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, BakerTilly

Most confectionery products are interchangeable. Therefore, consumer loyalty is quite low, especially for cookies, muffins and gingerbread. Products from different manufacturers with similar recipes cause the transition of competition to the price level. The variety of products also affects the change in the structure of demand. In recent years, confectionery products have been partially replacing traditional types of bread. Popular modern products include croissants, cereal cookies and low-calorie sweets.

Various flour products dominate the structure of confectionery production in Ukraine in physical terms (55.3%). Chocolate and cocoa products together account for 23.6%. A large share of products in the confectionery market are produced locally (about 95%), but imports in this segment show active growth. This is due to the growing interest of Ukrainian consumers in foreign sweets, which are believed to be of better quality.

Flour confectionery is one of the promising categories of Ukrainian products for export. According to the State Customs Service of Ukraine, in the first 4 months of 2020, Ukraine exported flour confectionery in the amount of USD 61 million, which is 26% more than in the same period of 2019.



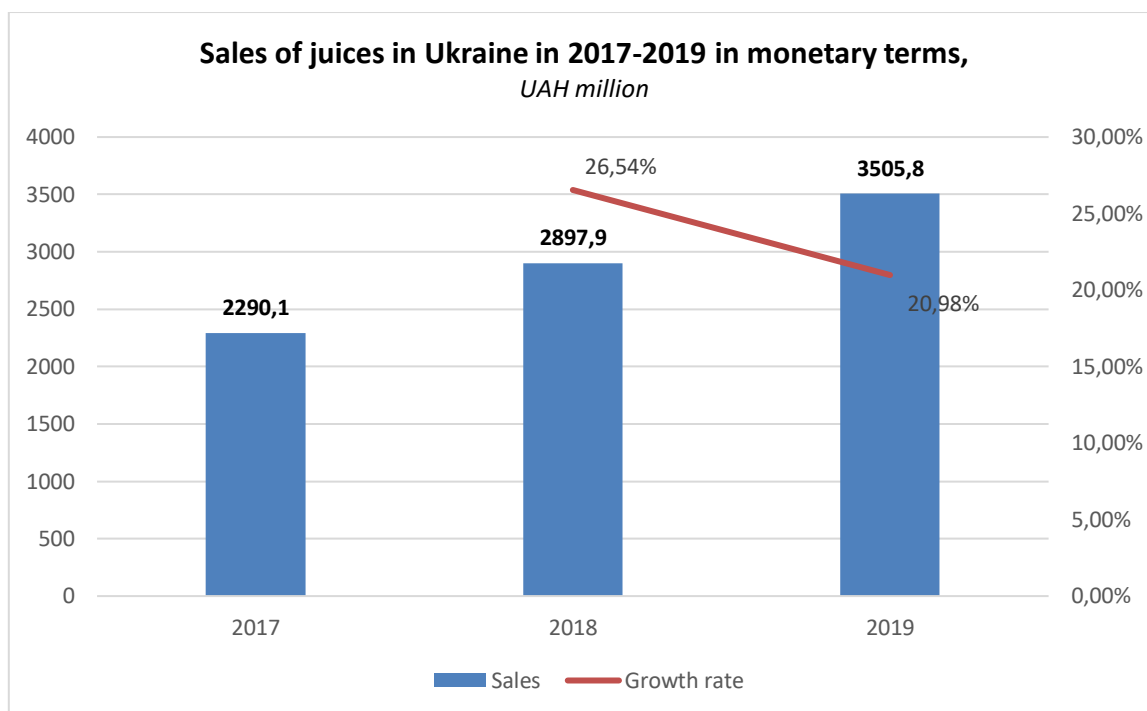
Source: Infographic report “Ukrainian Agribusiness MY 2019/20” by LLC Top Lead, LLC Latifundist Media, Crédit Agricole, BakerTilly

2.6. BEVERAGES INDUSTRY

In accordance with SE Derzhzovnishinform, in 2019 the value of imported alcoholic and non-alcoholic beverages in Ukraine amounted to USD 533 million, which is by almost 9% higher than in 2018. The lion's share in the structure of domestic purchases of products of this group of agricultural products last year was traditionally occupied by alcoholic beverages, with an alcohol concentration of less than 80%. These are mainly whiskey, vodka, liqueurs and sweet infusions, which were imported in amount of 66 thousand tons worth USD 228 million. Almost 78,000 tons of grapes and other wines worth USD 186 million were imported. Imports of natural and mineral waters in 2019 amounted to 114 thousand tons worth USD 61 million, and malt beer – to 54 thousand tons worth USD 57 million dollars.

The largest purchases of natural and mineral water were made by domestic importers in Georgia, and beer – in Belgium, Mexico and Germany. Various wines were purchased mainly in Italy, Georgia, France and Spain; strong spirits – in Great Britain, Germany, Georgia, Armenia and Ireland. In general, main suppliers of beverages to Ukraine last year were the EU countries. They provided about 2/3 of the value of imports. At the same time, the total supply of these products from Italy accounted for 16.9% of the value of imports, from Georgia – 15.6%, Germany – 10.8%, Great Britain – 7.6%, France – 5.9%.

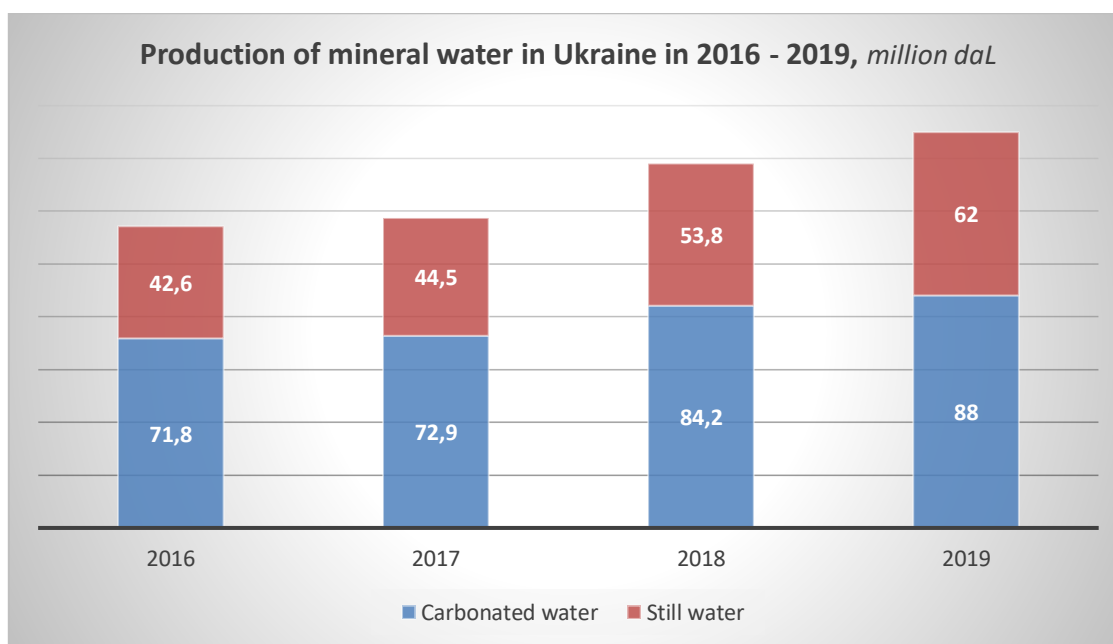
The consumption of juices, fruit drinks, compotes and similar beverages increased in Ukraine in 2019. Volume growth increased every year by 15-20% after the crisis of 2014-2015.



Source: State Statistics Service of Ukraine, Pro Consulting

The most consumed categories of the market are juices and nectars, which occupy more than 98%; fruit drinks and smoothies make up a more "niche" category. Sales of juices and similar goods take place to a greater extent in large chain supermarkets, namely ATB and Silpo – the leaders of the Ukrainian retail market. Although juices are a stable category of consumption throughout the year, in spring their production increases by about 20%. In general, consumers in Ukraine prefer well-known brands. There are 5-10 leading companies in the market, that produce the main volumes. There are also middle regional players. Based on consumer preferences, the main juices brand is “Sandora” (owned by Pepsi Co). Another top brand is “Rich”.

The mineral water market in Ukraine has been developing steadily. According to the analysis of the drinking water market, the production of carbonated mineral water over the past three years has grown at an average annual rate of 9.6% with the highest rate in 2018 – 17.6%. The structure of mineral water production is dominated by carbonated water. Although its share has decreased by 4 percentage points in four years, it is still at a level close to 60%.



Source: State Statistics Service of Ukraine, Pro Consulting

Per representation of Pro Consulting agency, Kyiv is the largest consumer region of mineral water in Ukraine. The turnover in Kyiv in 2019 is UAH 1,548.8 million. Consumers are mainly concentrated in Kyiv due to much higher population. Dnipro and Kharkiv regions are in the second and third places, respectively. The average Ukrainian consumes about 35-40 liters of mineral water of various kinds a year. Higher levels of consumption in European countries are due to the trend of a healthy lifestyle and again the culture of water consumption.

According to a study of consumer preferences in the mineral water market, the most preferable are the products of the largest player in the market – IDS Group (“Morshinska” – 39.7%; “Borjomi” – 27.8%), as well as Buvette – 21.2% due to availability of a developed sales network and competitive prices.

More than half of the total volume of Ukrainian mineral water is produced in four regions – Zakarpattia, Lviv, Poltava and Dnipro. Mineral water producers are more focused on the domestic market due to high overhead costs in foreign trade. The table and mineral water market in Ukraine is highly consolidated. The leaders are the Morshyn Mineral Water Plant “Oscar” (IDS Borjomi Ukraine), Myrhorod Mineral Water Plant (IDS Borjomi Ukraine), “Coca-Cola Beverages”, “Svalyava Mineral Waters” (“Ukrainian Mineral Waters”), “Carpathian Mineral Waters” (TM “Karpatska Dzherelna”).

3. CHALLENGES IN FOOD AND BEVERAGES SECTOR

The major **challenges to the F&B sector** in Ukraine addressed in the “Export Strategy for Food and Beverages Sector 2019-2023”⁶ are as follows:

Firm-level constraints

- low productivity with high underlying costs;
- inability to supply high enough volumes to be attractive for international buyers;
- local companies reluctant to change/alter their products/technology to sell what the market is demanding;
- shallow domestic market;
- lack of R&D (research and development), innovation and use of technologies in all but the largest companies;
- lack of experienced certified professionals in food safety and agriculture;
- lack of adequate technical training in the industry (including training of market analysis experts, economists trained specifically for the agricultural sector, as well as food safety experts);
- a dearth of experts for controls of food safety and agro-products; lack of skills to use market data to plan change.

Business environment constraints

- inadequate infrastructure (roads, ports, elevators and cold chain);
- lack of infrastructure to consolidate small consignments of agro-products, especially critical for some agro-products such as fruits, vegetables, berries, milk and meat (excluding poultry);
- the unsatisfactory speed of agricultural sector development in the absence of an “open” agricultural land market;
- foreign currency restrictions;
- labeling laws;
- implementation of sanitary and phytosanitary (SPS) and food safety laws of the EU;
- lack of testing and certification facilities;
- non-compliance with international standards;
- divergence between Ukrainian and international product requirements and standards;
- little or no access to bank loans (at the level of business);
- lack of financial planning and modelling for the medium- and long-term perspective;
- high cost of financing;
- the reluctance of the financial institutions to support the sector, since exports are perceived as risky.

Market constraints

- national market distortions;
- customers’ trust in products and quality is undermined by imprecise labeling in both domestic and export markets;
- absence of fair competition on the internal market;
- poor agricultural and business services support;
- lack of reliable and integrated market data;
- lack of state support to address high credit costs for product development (programs of state financial support are concentrated on raw products);
- lack of R&D support at the national level;
- lack of national promotion and branding;
- lack of promotion of Ukrainian F&B products in foreign markets.

⁶ The Food and Beverages Strategy was initiated by the Ministry of Economic Development and Trade of Ukraine in the framework of «Export Strategy of Ukraine: Strategic Trade Development Roadmap for 2017–2021 and Action Plan» implementation, elaborated with the support of the International Trade Centre and Non-Governmental Union «Foundation for Support of Reforms in Ukraine» and with a financial contribution from the German government through Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ) GmbH. Web-link to the document: <https://www.me.gov.ua/Documents/Download?id=83e2e520-ed97-412e-9c8e-cdde6b76eb4f>

4. INVESTMENTS IN FOOD AND BEVERAGES SECTOR

In accordance with the Office of the National Investment Council, the food industry's capital investment has tripled and net income has grown by almost 46 times. The food industry's profit for 2019 exceeded the average annual indicator of the industry for 2010-2018 by 11.9 times.

In accordance with Delo.ua ⁷, the food industry continues to develop in the pandemic 2020. After a situational decline in food production in spring 2020, the industry's indicators began to rise: in July 2020, the industrial production index increased to 105% y-o-y according to the State Statistics Service of Ukraine. At the same time, production volumes of the most popular cereals increased in physical terms by 33% in January-July 2020, and refined sunflower oil - by 27%. The increase in production for some items reached 47-118%: in particular, in the production of frozen pork carcasses and half carcasses, dried and salted fish fillets, cooked potatoes (including chips), cooked nuts etc.

With total revenue of about UAH 173 billion, 18 enterprises of the food sector entered the 200 best Ukraine companies in terms of profit in 2019. Among the largest companies were: MHP (Myronovskiy Khiboproduct), "Roshen", "Nestle Ukraine", "Abinbev Efes Ukraine", "Delta Wilmar Ukraine", "Allseeds Black Sea", "Mondelez Ukraine", "Sandora", "Carlsberg Ukraine", "OptimusAgro Trade", "Coca-Cola Beverages Ukraine", "Food Development", "Obolon" and others. These are mainly enterprises for the production of vegetable oil, drinks, confectionery and chicken products.

The food industry remains one of the most attractive for capital investments in Ukraine. Despite the coronavirus crisis, the food sector's capital investments in the first half of 2020 increased to 6% of capital investments in the Ukrainian economy as a whole and to 15.6% of total industrial volumes (versus 5% and 12.5% y-o-y respectively). However, in absolute terms, the inflow of investments in fixed assets of the food industry has decreased this year – to UAH 9.9 billion in the first six months. The leading regions that attracted 39% of all capital investments in the industry were: Vinnitsa, Dnipro regions and Kyiv. Investors explain the attractiveness of the food industry by the relatively high profitability of processing agricultural raw materials in Ukraine.

In the first three months of 2020, enterprises' capital increased by USD 7.1 million – 7.7% of revenues to all domestic sectors. Currently, about USD 3 billion of foreign investments are concentrated in the food industry. The largest amounts of direct investments are now concentrated in the production of vegetable oils, animal fats, beverages, as well as meat and meat products – USD 307-399 million.

Currently, about 50 investment projects are being implemented in the food sector, most of which are expected to be completed in 2021.

⁷ <https://delo.ua/business/racion-pitanija-pischeprom-odna-iz-samyh-perspek-373550/>

5. FOOD RETAIL SECTOR

Per representation of the research company GT Partners Ukraine, in 2020 the significant acceleration in the development of food retailers was observed in Ukraine. In the first 6 months of 2020, chain FMCG operators in Ukraine opened 340 stores. 284 of them were brand new, and the rest changed the logo due to rebranding process or the takeover operation. During the same period in 2019, 239 stores were opened, 207 of which were completely new.

According to the results of two quarters of 2020, the dynamics of opening new stores exceeded the level of 2019 by almost 40%. In general. In the first half of 2020, the market dynamics reached the highest level in the last decade as an indicator of the launch of new outlets. This was especially surprising given the quarantine restrictions in place in Ukraine in April-June 2020. Top-5 leaders of the market include: ATB, FOZZY, Volwest Retail, Rukavichka and KOLO.

Top-10 food retailers of Ukraine by the number of stores

#	Company	Chains	Central office	Number of stores, June 2020	Number of stores, 2019
1	LLC "ATB-Market"	ATB; ATB Express	Dnipro	1132	1077
2	Fozzy Group	Silpo; Fora; Fozzy; Le Silpo; Thrash!; Favore	Kyiv	575	561
3	VolWest Retail	Nash Kray; Nash Kray Express; SPAR	Lutsk	272	274
4	LLC TPC "LvivKholod"	Rukavichka	Lviv	162	160
5	LLC "Aretail"	KOLO (Products near house)	Kyiv	151	105
6	LLC "ECO"	ECO Market; Sympatik	Kyiv	142	148
7	LLC "OPTTORG-15" LLC NCSM "Delvi"	Delvi	Kyiv	120	112
8	LLC "LK-Trans"	LotOK		96	91
9	LLC "Omega"	VARUS; VARUS-market; VARUS to go; Planeta	Dnipro	95	84
10	LLC "Modern-Trade"	Kopiyka; Santim; Kopiyka-minimarket	Odesa	89	90

Source: GT Partners Ukraine, Association of retailers of Ukraine

In the first half of 2020, the main players in Ukrainian food retail maintained and strengthened their positions of two recent years. Auchan, which pushed Metro Cash & Carry Ukraine from third to fourth position, remained in the top three. Fozzy Group is still the leader among the largest retailers. In the first half of 2020, the total retail space of all Fozzy Group stores: Silpo, For a, Fozzy Cash & Carry, Le Silpo increased by almost 13,600 square meters.

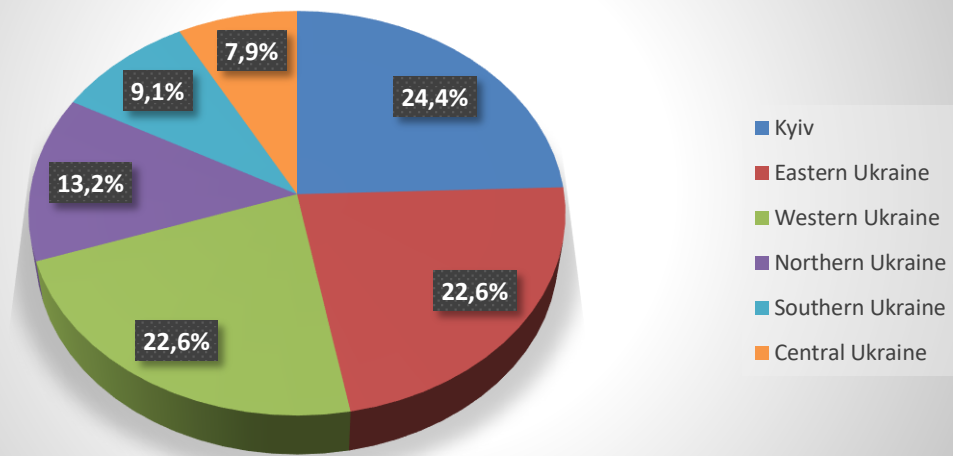
Top-10 food retailers of Ukraine by the total sales area

#	Company	Chains	Central office	Total sales area, June 2020	Total sales area, 2019
1	Fozzy Group	Silpo; Fora; Fozzy; Le Silpo; Thrash!; Favore	Kyiv	591 850	578 280
2	LLC "ATB-Market"	ATB; ATB Express	Dnipro	539 060	509 980
3	Auchan Ukraine Hypermarket	Auchan; Auchan City; My Auchan; Auchan Pick up point	Kyiv	189 130	189 710
4	Metro Cash & Carry Ukraine	Metro; Beri-Vezi	Kyiv	184 155	184 155
5	Tavria V. Tavria V Plus	Tavria V; Kosmos	Odesa	138 440	141 315
6	Novus Ukraine	NOVUS; NOVUS Express	Kyiv	126 945	116 700
7	Retail Group	Velyka Kishenya; Velmart; VK Express; VK Select	Kyiv	113 325	111 650
8	LLC "ECO"	ECO Market; Sympatik	Kyiv	105 100	110 740
9	LLC "Omega"	VARUS; VARUS-market; VARUS to go; Planeta	Dnipro	87 000	85 400
10	Fourchet	Fourchet; Gourme-Fourchet; Narodniy	Kyiv	53 560	67 750

Source: GT Partners Ukraine, Association of retailers of Ukraine

For a long time, Western Ukraine remained the most attractive region for opening retail stores, especially for national players. However, in 2020 year the retailers focused on Kyiv. Most new FMCG stores were opened in Kyiv (more than 24% of the total number of openings).

Regions of Ukraine where new retail stores were opened in the first half of 2020, %



Source: GT Partners Ukraine, Association of Retailers of Ukraine

Despite constant development, only three retail chains are present in almost all regions. They include: #1 Fozzy Group with 575 outlets of various formats in 25 regions; #2 ATB which covers 24 regions and #3 Volwest Retail, which is represented in 20 regions of the country. The retail market expects new changes in the rankings or even new players in 2020 or in the first half of 2021. Novus announced the purchase of food retailer Billa. As a result, another 35 outlets will be added to 46 Novus stores.

6. LIST OF BUSINESS ASSOCIATIONS

- Ukrainian Food Export Board;
- Ukrainian Chamber of Commerce and Industry;
- European Business Association;
- American Chamber of Commerce;
- Ukrainian Agrarian Confederation;
- Independent Bank Association of Ukraine;
- Ukrainian Agribusiness Club;
- Agrarian Union of Ukraine;
- Association “Ukroliiprom”;
- All-Ukrainian Association of Bakers;
- Association of Ukrainian Producers “Ice cream and Frozen Products”;
- Association “Union of Poultry Breeders in Ukraine”;
- Association “UKRSADPROM”;
- Association “Berry Industry of Ukraine”;
- Ukrainian Grain Association;
- Non-Governmental Association “Sheep and Goat Industry of Ukraine”;
- Corporation “Ukrvinprom”;
- National Dairy Association of Ukraine “Ukrmolprom”;
- Association “Ukrkondprom”;
- Ukrainian Fish and Seafood Importers Association;
- Association of Honey Exporters and Processors;
- Ukrainian Stock Breeders Association;
- Seed Association of Ukraine;
- National Association of Joint-Stock Companies Producers of Baby Food, Canned Milk and Juice Products “Ukrkonservmoloko”;
- National Association of Meat and Meat Products Producers of Ukraine “Ukrmiaso”;
- National Association of Agricultural Advisory Services of Ukraine;
- National Association of Sugar Producers of Ukraine “Ukrtsukor”;
- Union of Certified Organic Products Producers “Organic Ukraine”;
- Ukrainian Association of Potato Producers;
- Ukrainian Nut Association;
- Federation of Organic Movement of Ukraine; Ukrainian Pulse Association;
- Flour Millers Association of Ukraine;
- Association “Greenhouses of Ukraine”;
- Ukrainian Association of Soy Producers and Processors;
- Association “Ukrsortnasinnieovoch”;
- Association of Organic Products Producers “Biolan Ukraine”;
- Ukrainian Phytosanitary Association;
- Association of Retailers of Ukraine.

7. TRADE EVENTS

- **World Food Ukraine.** November 3-5, 2021, Kyiv <http://worldfood.com.ua/>
- **Bakery Ukraine.** September 2021, Kyiv <http://www.bakery-expo.com.ua/>
- **Inprodmash and Upakovka.** September 14-16, 2021, Kyiv <https://inprodmash.ua>
- **Fresh Business Expo** December 1-3, 2020, Kyiv <http://www.freshbusinessexpo.com/>
- **Grain Tech Expo.** February 2021, Kyiv <https://www.grainexpo.com.ua>
- **Agro Animal Show.** February 2021, Kyiv <https://www.animal-show.kiev.ua>
- **Fruit. Vegetables. Logistics.** February 2021, Kyiv <https://www.freshexpo.kiev.ua/>

8. USEFUL LINKS AND SOURCES

- Ministry of Economic Development, Trade and Agriculture of Ukraine <https://www.me.gov.ua/>
- State Statistics Service of Ukraine <http://www.ukrstat.gov.ua/>
- World Bank Group <https://www.worldbank.org/>
- National Bank of Ukraine <https://bank.gov.ua/>
- State Fiscal Service of Ukraine <http://sfs.gov.ua/>
- Ministry of Finance <https://mof.gov.ua/>
- Ministry of Infrastructure <http://mtu.gov.ua/>
- State Customs Service of Ukraine <https://customs.gov.ua/>
- State Service of Ukraine for Food Safety and Consumer Protection <http://www.consumer.gov.ua/>
- Ukrainian Agribusiness Club <http://ucab.ua/>
- National Association of Sugar producers of Ukraine (Ukrsugar) <http://www.ukrsugar.com/>
- Ukrainian Grain Association <http://uga.ua>
- Ukroliyprom Association <https://ukroilyprom.org.ua/>
- Study [“Export Strategy for Food and Beverages Sector 2019-2023”](#)
- Ukrainian Agrarian Council <https://uacouncil.org>
- American Chamber of Commerce <https://chamber.ua/>
- Ukrainian Food Export Board (UFEB) <http://www.ukrainian-food.org>
- Ukrainian Agrarian Federation (UAC) <http://agroconf.org>
- European Business Association (EBA) <https://eba.com.ua/>
- Latifundist Media <https://latifundistmedia.com/>
- Latifundist web-resource <https://latifundist.com/>
- APK Inform <https://www.apk-inform.com>
- Proagro <http://www.proagro.com.ua/>
- Ukragroconsult <http://www.ukragroconsult.com/>
- Agroportal <http://agroportal.ua>
- Interfax <http://interfax.com.ua/>
- Unian <https://www.unian.net/>
- Delo.ua <https://delo.ua>

- Ukrainian Food Expo <http://ufexpo.com.ua>
- Centre for Economic Strategy (CES) <https://ces.org.ua/>
- Baker McKenzie <https://www.bakermckenzie.com/>
- AEQUO Law Firm <https://aequo.ua>
- Baker Tilly Ukraine <https://bakertilly.ua>
- GT Partners Ukraine <http://gtpartners.com.ua/>
- Pro Consulting <https://pro-consulting.ua/>
- Top Lead <https://toplead.com.ua/>
- National Investment Council of Ukraine <http://www.nicouncil.org.ua/>
- SE Derzhzovnishinform <https://dzi.gov.ua/>
- United States Department of Agriculture (USDA) <https://www.usda.gov/>

9. ANNEXES

ANNEX 1

Indices of industrial production by type of activity and main industrial groupings (MIG's) in 2020¹

(percent to the corresponding period of 2019)

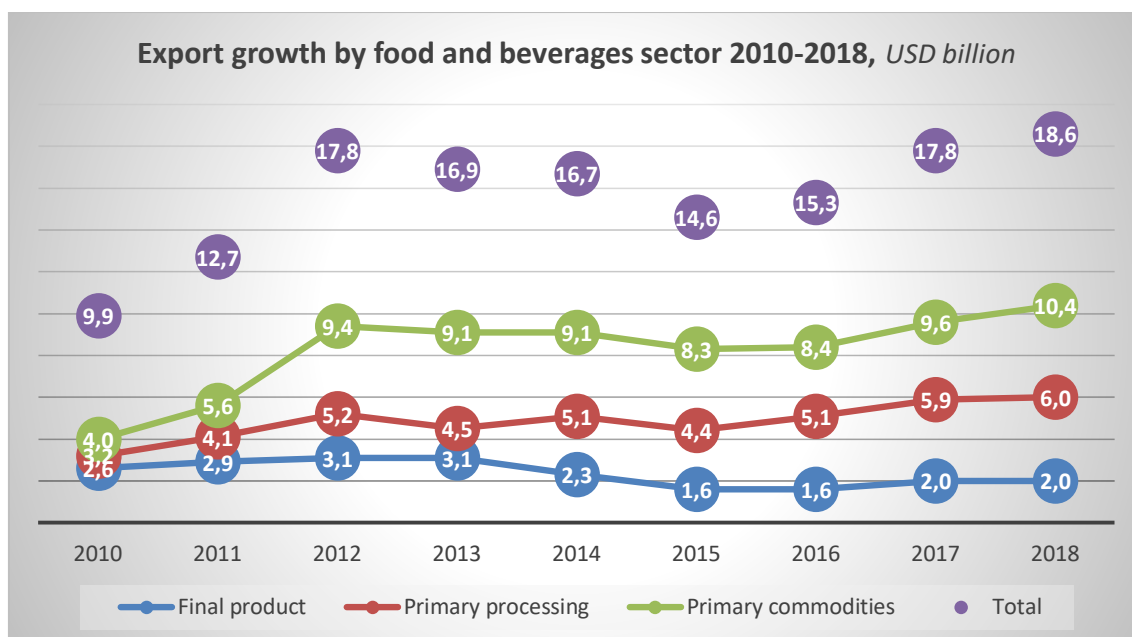
	Code of CTEA-2010	January	January-February	January-March	January-April	January-May	January-June	January-July	January-August	January-September
by type of activity										
<i>Production of foodstuffs, beverages and tobacco products</i>	10-12	102.9	104.5	102.4	100.2	99.0	99.3	100.1	100.1	98.9
<i>Manufacture of food products</i>	10	102.9	104.8	102.9	100.8	99.5	99.9	100.6	100.6	99.3
<i>Processing and preserving of meat and production of meat products</i>	10.1	87.0	90.1	92.7	92.5	92.9	93.2	94.5	95.3	95.8
<i>Processing and preserving of fish, crustaceans and molluscs</i>	10.2	89.2	95.4	100.4	93.9	94.3	93.2	95.7	96.1	95.7
<i>Processing and preserving of fruit and vegetables</i>	10.3	130.3	120.7	120.0	114.9	107.5	101.7	104.0	100.1	99.9
<i>Manufacture of vegetable and animal oils and fats</i>	10.4	116.7	115.4	110.3	109.1	106.7	107.3	108.0	107.9	106.6
<i>Manufacture of dairy products</i>	10.5	97.2	100.2	99.6	98.3	98.5	98.1	96.7	96.6	96.8
<i>Manufacture of grain mill products, starches and starch products</i>	10.6	100.4	99.8	101.3	96.0	94.6	94.7	95.4	96.1	93.6
<i>Manufacture of grain mill products</i>	10.61	92.2	90.8	94.4	94.2	91.8	91.6	91.5	90.4	89.3
<i>Manufacture of bakery and farinaceous products</i>	10.7	94.9	96.3	94.7	92.1	90.8	91.0	91.5	91.9	91.8
<i>Manufacture of bread; manufacture of fresh pastry goods and cakes</i>	10.71	91.9	92.4	90.6	88.0	87.6	87.6	88.2	88.5	88.7
<i>Manufacture of rusks and biscuits; manufacture of preserved pastry goods and cakes</i>	10.72	101.6	104.3	102.1	98.8	96.2	96.9	97.0	97.7	97.0
<i>Manufacture of other food products</i>	10.8	88.1	101.3	99.2	91.0	90.5	93.4	95.8	96.5	90.0

	Code of CTEA-2010	January	January-February	January-March	January-April	January-May	January-June	January-July	January-August	January-September
<i>Manufacture of sugar</i>	10.81	-	-	-	-	-	-	-	-	30.0
<i>Manufacture of cocoa, chocolate and sugar confectionery</i>	10.82	116.6	119.2	109.0	94.8	92.6	95.8	98.8	99.9	98.7
<i>Processing of tea and coffee</i>	10.83	104.0	107.1	103.3	97.9	98.9	98.4	96.0	94.6	94.8
<i>Manufacture of condiments and seasonings</i>	10.84	105.4	109.9	106.2	101.6	100.0	103.8	105.4	103.7	104.0
<i>Manufacture of other food products n.e.c.</i>	10.89	99.1	111.9	109.8	99.1	94.4	91.4	93.3	92.5	93.3
<i>Manufacture of prepared animal feeds</i>	10.9	101.3	103.0	100.8	99.3	97.8	97.6	97.2	97.7	97.7
<i>Manufacture of beverages</i>	11	101.8	100.3	96.7	92.6	93.0	93.3	95.0	95.4	95.0
<i>Distilling, rectifying and blending of spirits</i>	11.01	112.7	106.6	103.8	102.5	98.5	99.7	100.0	100.9	100.6
<i>Manufacture of wine from grape</i>	11.02	49.8	61.8	70.2	67.2	68.0	69.8	72.3	72.5	72.8
<i>Manufacture of soft drinks; production of mineral waters and other bottled waters</i>	11.07	102.0	106.8	101.4	91.6	90.9	90.7	94.4	97.0	96.4
<i>Manufacture of tobacco products</i>	12	117.5	123.0	110.6	112.3	108.8	106.8	105.1	103.9	102.9

¹ Data exclude the temporarily occupied territory of the Autonomous Republic of Crimea, the city of Sevastopol and a part of temporarily occupied territories in the Donetsk and Luhansk regions.

Source: State Statistics Service of Ukraine

ANNEX 2



Source: Infographic report by the [Ministry for Development of Economy, Trade and Agriculture of Ukraine](#), Trade with Ukraine, Foundation for Support or Reforms of Ukraine, Deutsche Zusammenarbeit, GIZ

ANNEX 3

Ukraine's leading positions in world markets

Product	Rank in world's export	USD million
Sunflower oil	1	4 113
Sunflower meal	1	922
Rapeseed	2	1 011
Walnuts	3	117
Corn	4	3 506
Barley	4	682
Wheat	5	3 004
Soybeans	6	831
Poultry meat	7	507
Rapeseed oil	7	112
Soybean meal	8	165
Soybean oil	8	153
Powdered milk, cream	8	59
White sugar	9	217
Beef	14	125

Source: Infographic report by the [Ministry for Development of Economy, Trade and Agriculture of Ukraine](#), Trade with Ukraine, Foundation for Support or Reforms of Ukraine, Deutsche Zusammenarbeit, GIZ