**Economic Development**

Ukraine is a lower middle income country with GNI per capita as of US$ 2,800 in 2009. Total number of population is 46 million inhabitants, of which 32 percent live in rural area, and the annual population growth is -0.54 percent. Ukraine recorded strong economic growth over 2001-2008 with average GDP growth of 7.5 percent. As a result of the global economic crisis, GDP sharply declined by 15 percent in 2009. The agricultural sector contributed with 8 percent of value added to GDP and employed around 16 percent of the total labour force in 2009. Manufacturing industry generated above 18 percent of GDP with a negative annual growth as of -26.6 percent after a steady growth during last decade averaged 10.5 percent. Ukraine is a net exporter of agricultural and food products. Ukraine is the world’s largest exporter of sunflower oil and among the world’s largest exporters of grain and sugar.

**Food and Beverages Demand**

A share of total household expenditure on food and non-alcoholic beverages declined to 50 percent in 2009 compared to 65 percent in 90's, where expenditures of rural population makes up 56 percent and urban – 48%. The soft drinks market, especially demand for fruit juice and bottled water, has grown strongly in recent years. Beer, wine and soft drinks consumption is increasing but of alcoholic beverages it decreased in 2009 due to high excise duties (58%) among other reasons. The growing middle class has begun to shift its preferences towards higher-quality food products. Nearly 97% 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. Organic area has been increasing and amounted to 270 thousand hectares in 2010 as well as the number of organic farms increased to 140 farms in 2010, compared with only 31 in 2002.

**UKRAINE**

<table>
<thead>
<tr>
<th>Key Economic Indicators</th>
<th>2009</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, US$ billion</td>
<td>113.5</td>
<td></td>
</tr>
<tr>
<td>Manufacturing VA, % of GDP</td>
<td>18.2</td>
<td></td>
</tr>
<tr>
<td>Agriculture VA, % of GDP</td>
<td>8.0</td>
<td></td>
</tr>
<tr>
<td>Employment in Agric., % of total</td>
<td>15.6</td>
<td></td>
</tr>
<tr>
<td>Gross Fixed Capital F., % of GDP</td>
<td>18.0</td>
<td></td>
</tr>
<tr>
<td>FDI net inflows, % of GDP</td>
<td>4.2</td>
<td></td>
</tr>
<tr>
<td>R&amp;D, % of GDP</td>
<td>0.95</td>
<td></td>
</tr>
<tr>
<td>Merchandise Trade, % of GDP</td>
<td>75.0</td>
<td></td>
</tr>
<tr>
<td>Merchandise Exports, US$ billion</td>
<td>39.7</td>
<td></td>
</tr>
<tr>
<td>Merchandise Imports, US$ billion</td>
<td>45.4</td>
<td></td>
</tr>
<tr>
<td>Global Merchandise Exports rank</td>
<td>54</td>
<td></td>
</tr>
</tbody>
</table>

**Food, Beverages & Tobacco**

<table>
<thead>
<tr>
<th>2009</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output, % of manufacturing</td>
<td>28.5</td>
</tr>
<tr>
<td>Value Added, % of manufacturing</td>
<td>n/a</td>
</tr>
<tr>
<td>Enterprises, % of manufacturing</td>
<td>6.8</td>
</tr>
<tr>
<td>Employ, % of manufacturing</td>
<td>20.7</td>
</tr>
<tr>
<td>Investments, % of manufacturing</td>
<td>29.6</td>
</tr>
<tr>
<td>FDI inflows, % of total FDI inflow</td>
<td>4.6</td>
</tr>
<tr>
<td>R&amp;D, % of Output</td>
<td>n/a</td>
</tr>
<tr>
<td>Net Trade, US$ million</td>
<td>1.77</td>
</tr>
<tr>
<td>Exports, % of merchandise exp</td>
<td>10.7</td>
</tr>
<tr>
<td>Imports, % of merchandise imp</td>
<td>5.4</td>
</tr>
<tr>
<td>Exports annual growth, %</td>
<td>-16.6</td>
</tr>
</tbody>
</table>

**National Development Programme.** The key documents setting out the Government policies for the country, agriculture, rural and agro-industry 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. The Ukrainian government has lately become a supporter of biodiesel production.

Ukraine has with the EU a Partnership and Cooperation Agreement since 1998 with an ENP Action Plan from 2005 and the National Indicative Programme for 2011-2013 where support to agro-industry sector development and to trade facilitation is included. Together with the UN organisations the country elaborated UNDAF for 2012-2016.

**Legal Framework.** Ukraine has adopted a number of laws to encourage agricultural and agro-industry growth and rural development, among those are: the State Support of Agricultural Sector of Ukraine (2004) including the Agrarian Subsidies Fund establishment, the Law on Basic Principles of the State Agrarian Policy (2005), the Law on Grain and Grain Market in Ukraine (2002), the Commercial Code (2004), the Law on Wholesale Markets of Agricultural Products (2009), the Law on Support to Utilisation of Biofuel, the Law on Joint-stock Companies (2008), the Law On State Regulation of Import of Agricultural Products, the Law on Public-private Partnership (2010), the Law on Protection of Economic Competition (2009). The Law on Organic Production was drafted together with the Concept of the State Programme of Organic Development in Ukraine.
Trade Liberalization, WTO Accession and Trade Performance

Trade Regulation. Ukraine adopted the Law on Custom Code (effective from 2004 with amendments in 2005). In 2010 the Concept on Reforming the Performance of the State Customs Service of Ukraine was elaborated to improve conditions for foreign trade and to attract investments to national production. There was very limited progress on implementing the customs-related priorities of the Association agenda. Customs procedures are being computerized, but the risk-based customs control system still needs to be substantially upgraded. Ukrainian trade policy is characterized by licensing that is valid both for import and export products. Ukrainian export regulation is characterized by restrictions (export quotas, export duties) in order to constrain 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. Such products like wine, liqueur, vodka and tobacco products are subject to excise tax. Ukraine has Free Trade Agreements with 12 countries and with EFTA countries from 2010. Currently Ukraine is negotiating FTA with CIS countries, the EU and Canada expecting to have signed it in 2011.

WTO accession. Ukraine has been a member of WTO since May 2008 and an observer to the Agreement of Government Procurement (GPA) accession with 0.407% of contribution to WTO budget in 2011. Simple average of import duties for agricultural goods applied in 2009 were 9.7 percent.

Trade Performance. Exports of merchandise products accounted for about 35 percent of Ukrainian GDP, and imports made up around 40 percent of GDP with main export commodities like iron and steel, cereals and machinery, where cereals accounted around 9 percent of total export revenue in 2009. In spite a negative trade balance on merchandise goods balance of trade of F&B&T has been positive over time. In 2009 processed F&B&T products accounted 5.4 percent of total merchandise imports and 10.7 percent of total merchandise exports in 2009 with a sharp decline by -16.6 percent in 2009 compared to 65 percent of annual growth in 2007. The main export products are: oil seeds and vegetable oil, cereals, milk products, different kinds of drinks and chocolate based confectionery. The main import products are raw and processed fish and other seafood, tobacco, spreads, fruit and vegetables, alcoholic beverages and coca beans was only 2.26% in 2009.

Top destinations for F&B&T products: Russia (28%), India (9%), Egypt (5%) and Belarus (4.6%) in 2009.

Top origins for F&B&T products: Russia (47%), Ukraine (12%), Brazil (11%) and Belarus (6%) in 2009.

Direct Foreign Investments

Regulation. Law on Foreign Investment Regime (1996) and the Law on Investments Activity provide the legal basis for foreign investment in Ukraine. In 2005 there was the State Agency of Ukraine for Investments and Innovations established. According to UNCTAD Ukraine is ranked among the top 30 favored locations for FDI in the world.

FDI inflows. In 2009 Ukrainian FDI inflows accounted 4.2 percent of GDP declined in 2.5 times since 2005. Ukraine is the third largest FDI recipient country in the CIS region.

FDI to F&B&T generated US$1.84 bln in 2009 that was 4.6 percent of total FDI or 23.7% of FDI in manufacturing with the biggest investors as Cyprus, UK, Austria, Denmark and Germany. In general, three major countries that invested to Ukraine economy in 2009 were Cyprus (21.5%), Germany (16.5%) and the Netherlands (10%) attracting investments to retail sector and construction. From 2007 to 2008 FDI inflows stocks from EU-27 countries grew by more than 10% in Ukraine. In 2009 EU investments into Ukraine amounted to €3.4 billion. The main international players include Nestlé (Switzerland) in the confectionery segment, Bunge and Cargill (both US) in the sunflower oil segment, and Wimm-Bill-Dann (Russia) and Danone (France) in the dairy segment, Coca-Cola and Calibis.

According to the Agribusiness Director at EBRD, Ukraine needs to invest between $40 and 80 million from 2010 to 2012 to raise the meat production. Ukraine needs to invest between $40 and 80 million from 2010 to 2012 to raise the meat production. The main FDI flows in different industries as follows: animal husbandry, dairy products, and meat products - 41%.

FDI: Foreign Direct Investments

Food Safety, Certification & Quality Control

Food Safety regulation. Ukraine is a member of the Codex Alimentarius Commission but it is a member of the International Organisation of Standards (ISO), the Food and Agriculture Organization (FAO) and the World Trade Organization (WTO) and the EU’s, and there was progress on the SPS negotiations for the DCFTA. In 2010, Ukraine adopted rules on the frequency of veterinary-sanitary inspections at enterprises, applying strengthened hygiene rules based on HACCP system. Besides, there was a working group established that started work on reforming the inspection system on the basis of EU standards. Agricultural food safety is the subject to the Law the Law on Safety and Quality of Food Products (2005), the Law On Standards, Technical Regulations and Conformity Assessment (2005), the Law on Veterinary Medicine, the Law on Assuring Sanitary and Epidemiological Well-Being of Population, the Law On Consumer Rights Protection. 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 prior to be imported. IFC supports Ukraine in improvement of Food Safety system through the ongoing project.

Certification. There are more than 100 institutions authorized to conduct certification under the Ukrainian State Certification System. Certification can be done with one of systems used in Ukraine – with the state quality standards (GOST) or Ukrainian national standards (DSTU). Certification of Ukrainian organic farms in accordance with EU Regulations was initiated and started in the late 1990s. Starting from Jan 2010 in accordance with the special Regulation between EC and Ukraine the newly established certification and control system for sunflower oil will provide valid certificates for exports to the EU.

Quality Control. Only an estimated 77 of the 20,000 food enterprises in Ukraine have implemented HACCP.

Business Environment and Competitiveness

Business Environment. According to the Doing Business Report 2011 has through business reforms improved in starting a business, paying taxes, getting credit, protecting investors, dealing with construction permits and trading across borders, it was ranked (out of 183 economies) as 145 in 2011 (up by 2 points to 2010). Trading across the borders is ranked as of 139, paying taxes – 181, protecting investors – 109, getting credit - 32 and starting business – 118 (up 18).

Taxation Relieving. Ukraine is in the list of the ten last countries of the world where paying taxes is the most difficult and costly. The country has a changeable tax code, and legislative amendments are frequent. The new Tax Code came into force 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. Costs of goods and services purchased from private entrepreneurs on a simplified tax regime are not deductible. General VAT is 20% but 0% VAT applies to the export of goods and related services. Ukraine is also a party to 68 double tax treaties.

Competitiveness. According to the Global Competitiveness Report 2010-2011 Ukraine is at transition stage from 1 to 2, got 89 overall Global Competitiveness Index among 139 countries, having the most five problematic factors of doing business as follows: policy instability, corruption, access to financing, tax regulations and government instability/coups. Efficiency of markets for goods and strengthen institutional framework are two of main concerns.

Agro-industry Brief

Chart 3: Food and Beverages Trade Performance over time

Chart 4: Share of Exported Product Groups of F&B in total exports, in 2009


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