

# Ukraine's Fruit and Vegetable Production, Storage, Processing, and Packaging

Business Outlook Report



**SPECIAL REPORT**  
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U.S. COMMERCIAL SERVICE KYIV

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This Special Report, “Ukraine’s Fruit and Vegetable Business Outlook,” was developed in 2017 to provide U.S. companies with the overview of the Ukrainian fruit and vegetable market. It includes overviews of each sub-sector and market insight from small and medium-sized producers regarding upcoming performance and modernization plans. With its favorable climate and one-third of the world’s most fertile black soil, Ukraine could serve as an enormous export base for fruit and vegetables, both fresh and processed. This report explores the factors – ranging from the market structure to competition to trade dynamics –that either enable or prevent growth in this industry. The information in this report is largely based on data gathered from an online survey of fruit and vegetable producers and processors, as well as two focus groups with companies in this sub-sector. The story market players tell is a story of almost overnight change. With the doors to its former largest trading partner slammed shut, Ukrainian companies have turned to new markets. In the process of pivoting sharply from east to west, they understand that the keys to unlocking new opportunities are agro technology and production improvements, both of which U.S. suppliers are well-positioned to provide.

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**Welcome to this special report about Ukraine’s fruit and vegetable sector issued by the U.S. Commercial Service in Kyiv (CS Kyiv).**

This report was produced in cooperation with several trade associations in Ukraine, as well as with the input of several dozen producers and processors. All sources say that this is undoubtedly a time of tremendous change for both producers and processors and that the impetus for change is necessity.

Without question the single most important factor that is pushing fruit and vegetable producers and processors to change is a complete turn-about in Ukraine’s trading relationships. In the last two years, Ukraine has shifted exports of the majority of its fruit and vegetables from Russia towards the European Union, South Asia, and South Africa. This shift from East to West requires Ukrainian companies to meet higher standards of production, which in turn requires them to seek better inputs.

With transformation of production and processing already underway, Ukrainian companies understand that collectively they may become world leaders in fruit and vegetable production and processing. They are ambitious and optimistic because they know they are building on a solid base. Ukraine’s output levels make it the fifth largest fruit, vegetable, and berry-producing nation in Europe and U.S. suppliers already in the market characterize buyers as technologically savvy.

While Ukrainian producers and processors hold positive views of the market, they are simultaneously realistic. They understand that the next leap forward will require better agricultural technology to maximize yields and their short term priorities for investment include developing production capacity, post-harvest handling, storage, and preliminary processing. These investments are only limited by low levels of affordable financing in the market, not by the will to improve. In CS Kyiv’s opinion, however, the current challenge of affordable financing will gradually subside as Ukraine’s baking sector continues to stabilize.

The greatest challenges to rapid modernization in this sector are political – at both the national level and at the farm level. At the national level, meaningful progress will depend largely on agricultural land reform. At the farm level, advances will require small and medium sized farmers and processors to view cooperatives in a more positive light. As these challenges are resolved in the next two to five years, Ukrainians’ demand for agricultural inputs will increase exponentially. American companies seeking new markets should therefore evaluate the Ukraine before their European and Chinese competitors saturate this market.

**U**kraine's fruit and vegetable producers believe that they can become world leaders in production and processing. The reason for their optimism lies in the sheer size of the nation's productive capacity. Ukraine's output levels make it the fifth largest fruit, vegetable, and berry-producing nation in Europe.

**Among European countries, Ukraine ranks 11 of 45 in organic farming. In 2016, Ukraine's total organic production was estimated at \$22 million (up 17 percent over 2015).** According to Ukraine's Ministry of Agrarian Policy and Food, multiple factors, including an average return on investment of around 300 percent, make organic farming one of the most attractive sub-sectors for the investment in Ukraine.

**Unlike Ukraine's grain-related agriculture, which is dominated by large vertically integrated producers, Ukraine's fruit and vegetable production is concentrated in households.** These smaller farmers produce 98 percent of the country's potatoes, 86 percent of other vegetables, and 81 percent of fruit and berries. While households account for a larger share of total fruit and vegetable production than industrial producers, they are not always the most efficient producers.

**Regardless of size, most companies have an optimistic view of the future. In CS Kyiv's survey and focus groups the majority of respondents anticipate that their revenues will either increase or stay the same in 2017.** Their priorities for investment in 2017 include developing production capacity, post-harvest handling, storage, and preliminary processing.

**Despite its abundance of black earth and its long agricultural history, Ukraine is surprisingly dependent on imported agricultural inputs.** Though it is the net exporter of fruits and vegetables, when it comes to inputs, such as seeds, fertilizers, and agricultural machinery, Ukraine is the net importer. Demand for agricultural inputs will increase in the future due to a fundamental reorientation of Ukraine's trading relations.

**Ukraine's future accession to the EU, the conflict in east, and a Russian ban on agricultural products recently pushed Ukrainian producers to develop new export markets.** Despite these factors that initially caused a slump in exports, by 2016, Ukraine rebounded and increased year-over-year vegetable exports by 57 percent to total \$153 million. It also expanded exports to the EU and began exporting vegetables to new markets in South Asia and Southern Africa.

**Demand in foreign markets will stimulate development of the Ukraine's food processing industry in the next five years.** The current state of underdevelopment combined with increasing foreign demand leads experts to predict that Ukraine's processing industry will grow quickly in the next five years. Global giants like Danone and Nestle are already localizing most of their inputs and industrial producers plan to build storage facilities to support sales expansion.

**Growth in both production and processing may be limited by access to financing and a near complete absence of modern cold storage facilities.** Access to finance has historically been a problem in Ukraine. As a result, suppliers that provide flexible financing terms have a significant competitive advantage. To help solve the storage problem, in the next two to three years, Ukraine's Ministry of Agriculture plans to actively support the development of infrastructure by investing more than \$20 million in 60 storage facilities throughout the country.

**Ukraine's ability to become world leaders in fruit and vegetable production and processing depends heavily on farmers' ability to cooperate in the wholesale market.** The consolidation of households and small family farms into cooperatives will increase their competitiveness, enable access to financing, generate economies of scale in warehousing and transportation, and open opportunities for exports.

**Understanding the economic potential of this sector, the government is starting to make significant investments in irrigation.** Ukraine's Ministry of Agriculture and the World Bank are negotiating \$1 billion in financing for the reconstruction of state-owned irrigation systems in southern Ukraine. By 2020, it is expected that Ukraine will resume watering an additional 500,000 hectares thus reaching one million hectares of total irrigated land.

**The DCFTA and EU safety standards and regulations will have a profound impact on companies' growth.** Analysts predict that overall Ukrainian exports to the EU will increase by 6.3 percent as a result of the implementation of the DCFTA. As trade increases, local fruit and vegetable producers will need to improve their competitiveness, by increasing yields, modernizing processing and packaging capacity, improving transport and storage, and improving food safety.

**Though U.S. companies could play a significant role in the development of this industry, today, there is little knowledge about U.S. equipment in the market.** CS Kyiv's focus group participants said that the specific areas in which they would like to evaluate U.S. suppliers were berry harvesters, freezing equipment, and cleaning and sorting equipment for fruit and vegetables. They would also like to learn about this equipment from end-users as well as from suppliers.

The U.S. Commercial Service in Kyiv would like to thank our partners listed below that helped promote the U.S. Commercial Service Survey and Focus Groups via their networks. We would like to especially thank UKRSADPROM Association for providing data on fruit, berry, and nut production, as well as food processing.



**Dmytro Kroshka**  
Chairman, Association "UKRSADPROM"

**U**KRSADPROM is a national association of industrial producers of fruits, berries, and nuts in Ukraine. It unites farmers, who produce more than half of the industrial output of these products in Ukraine.

During Soviet times, Ukraine was the largest producer of fruits and berries in the Soviet Union. Today, however, Ukraine's fruit and berry industry is recovering from the impact of Russia's ban on Ukrainian food products. These impacts are serious given that for decades, Ukraine exported more than 90 percent of its fruit and berries to Russia. At the same time that the industry is recovering from the blows of Russia's trade bans, it is also undergoing a dramatic transformation due the need to implement new food quality standards required by new export markets.

Despite these challenges, Ukraine continues to produce significant volumes of fruits and berries. It is the world's second largest cherry producer, third largest producer of nuts, and is in 12th position for apple production.

Further, UKRSADPROM believes that Ukraine's prospects for increasing production volumes of fresh and processed products is high. The country's growth potential is due to Ukraine's historical experience in fruit and berry cultivation, its favorable climatic conditions for growing fruits and berries, and its low production costs. Even at current production volumes, opportunities exist to expand the range of processed products for export.

To capitalize on opportunities in fruit and berry production and processing, the industry urgently needs to develop fruit and berry storage and acquire sorting and packaging lines, drip irrigation systems, and post-harvest technologies and processing equipment.

We hope that partners in the U.S., especially those able to offer financing packages and/or flexible payment terms, will use this report to evaluate the Ukrainian market and invest alongside us in the transformation of our industry.



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