



Success Stories from Chernihiv, Sumy, and Cherkasy regions

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CANDIES WITH “FEMININE NAMES” – UKRAINIAN ZEST ON THE WAY TO EU MARKET

Sumy, Sumy region

Summary

Entry to the EU market has been treated by Ukrainian companies, especially by small producers, as an unsurmountable task burdened with bureaucratic paperwork, a great many of back-breaking permits and bans. With the Association Agreement becoming effective, a series of reforms have been launched in Ukraine (bringing into conformity sanitary and phytosanitary measures and food safety control system with the EU requirements, introduction of transparent and simplified customs procedures). They have substantially facilitated possibilities of domestic producers to export food products to the EU. The story of a Sumy company proves that even a small business with high quality authentic food products can manage to pave their way towards EU market. The *Dobroyizh* company plan to export to the EU 2 to 5 tons of products annually.

1. Background

Insistence of EU market on high standards and the complicated procedures developed a biased attitude among SMEs to exports. They believe possible costs would be higher than expected benefits. Entrepreneurs commonly think that entering the EU market can only be managed by the large and powerful companies that have been preparing for many years.

2. Program/Reform Description

Pursuant to Chapter 4 “Sanitary and Phytosanitary Measures” of the Association Agreement, Ukraine shall implement a national quality control and food safety system equivalent to that of the EU, based on important principle of providing a “farm-to-table” control. Today, all companies in Ukraine supplying food products must mandatory implement permanent procedures based on hazard analysis and critical control points (HACCP). Since the system is integrated into the EU acquis, its confirmed availability at the company opens access to the EU markets for its products.

To simplify the exports to the EU, the Ukrainian customs authority introduced certificates EUR.1 for transportation of goods. They certify products originating from Ukraine entering EU to enjoy the preferential trade terms. Another important achievement in the area of simplification of access to EU markets was the launch of the institute of “authorized exporter.” It authorizes to independently file the declaration, regardless of the product price.

3. Program/Reform Outcomes

Actual stories of small producers in the regions prove that you do not need to a large company in order to get the maximum efficient result from your operations. A series of reforms designed within the foreign trade policy oriented to Europe facilitates the process. Kostiantyn Hetta, a producer of healthy candies based on authentic recipes of the *Dobroyizh* TM from Sumy, is sure about pro-European reforms presenting many opportunities for export access. Thus, they shall be taken. It does require investing time and resources but it also brings chances to get to a higher level of quality and understanding of the related processes of production and sales.



[photo 1. Sunny team of Dobroyizh holds the philosophy of healthy eating and are prepared to enter the EU market]*

*Photo courtesy of: AgroPortal.ua

flakes, peanuts, cinnamon, sesame seeds, poppy seeds, and a recently popular green buckwheat. All of them are combined into fanciful tastes. They include the khalva with the feminine names of “Smiyana” and “Yaryna”, “Zabava” and “Liubava”, chocolate bars named “Chocolate Jazz,” “Spicy August,” “Apple Joy,” and many other delicacies for those who care for their healthy lifestyles, do sports, opt for sugar-free food, appreciate food without thermal treatment, and for children, of course.

Introduction of a visa-free regime enhanced opportunities to independently explore EU market: “...you see how people live, and what they eat, and you see the niches you can confidently fill...” Kostiantyn Hetta says. When participating in numerous international fairs, he made sure himself that their products hit the nutrition trends in EU member-states and beyond. Unlocking your own export capacity in the context of simplified customs procedures, and introduction of the equivalent quality control and food safety system seems to be much easier. “HACCP is here, so go and sell, there are no constraints... you don’t have to take any circles of hell to access somewhere.”

Following the trips, and due to trade liberalization, a decision was made to launch the certification to export products to the EU. Currently, they are modernizing the equipment, raising quality control for their products. The certification is to be completed by the end of the year. Preliminary agreements have been reached with foreign partners to supply products to Germany, Denmark, and France. The estimated exports volumes will be 2 to 5 tons.

The company is ready to flexibly change the range of products for the needs of EU market, including also the certification for organic products. They expect it to foster farming business in the region since they are already procuring most of the raw materials from local farmsteads. For example, the company has a permanent contract with a reliable bee farmer. In addition, the company runs a socially responsible business. The company owners are active members of the “Ukrainian eco-initiative” NGO. A share of the sale proceeds is invested into environment protection projects. It is an important factor for reliable reputation and trust to business appreciated by Europeans.

“...Indeed, Europe gives you growth. If you want to export there, you need to readjust in all aspects in order to meet the requirements...If we do not wish to develop where are we going to end up tomorrow? Let us keep things as they are, and it will bring us back to USSR.”

Kostiantyn Hetta, owner of Dobroyizh TM

Kostiantyn was motivated to launch the production of healthy candies to offer a safe alternative for his family. Later, he felt like he could contribute it for other citizens. In fact, good food is a treasure you want to share with others. Today, the range of company products includes 18 types of unglazed bars, 9 types of khalva, 6 types of sugar-free chocolate bars. They use such ingredients as sprout sunflower seeds, honey, coconut



[photo 2. Candies of Dobroyizh TM with the slogan “value life” fits into the trends of global and European food consumption]

FUTURE FOR ORGANIC PRODUCTS: HOW EXPORT CAPACITY OF ORGANIC PRODUCTION IS GROWING IN SUMY REGION

Sumy region

Summary

Export capacity of Ukrainian organic food producers is restricted with the challenges of undertaking certification under EU standards. Its high cost makes Ukrainian products non-competitive in the EU market. In Sumy region, they initiated and developed the mechanism for support of organic producers by reimbursing their cost for certification from the regional budget. The tool has already been used by 6 companies from Sumy region who are planning in the near future to fill local and European markets with environmentally-clean and tasty products.

1. Background

Ukrainian organic food market has a huge export capacity but the growth is restricted by the lack of efficient regulation in the field. In particular, the fact that Ukraine is lacking EU standards in certification field makes it a rather complicated and costly procedure. The so called “euroleaf” is a luxury few operators can afford. As a result, the share of organic food products in the total agroexport makes only 0.5%. In addition, the cases with unfair suppliers undermined the trust to Ukrainian organic products and led to enhanced control measures on the part of the EU.

2. Program/Reform Description

Attractiveness of the EU market for Ukrainian agrarians and food processors is unquestionable. Its organic food consumption levels are much higher than in Ukraine. Being aware of the advantages and prospects of organic production, in 2016, Sumy RSA initiated a mechanism to support local agrarians of this sector. Within the Program for Development of Agroindustrial Complex and Rural Territories 2020 (approved by the decision of Sumy regional council dated 07.10.2016, with changes, hereinafter – the Program) it was focused on the area of support to organic food production.

It includes the reimbursement of 75% of costs incurred by agroindustrial companies from the region due to operation and verification of conformity of organic food production and obtaining a conformity certificate. One business operator may expect the grant money of up to UAH 15,000 for a year, regardless the types of agricultural activities and types of derived products. The maximum scope of funding of the Program in this area in 2017-2019 is UAH 150,000 a year. Representatives of local authorities stress the importance of increasing the funding for certification in case the interest of entrepreneurs who produce organic foods is increasing.

The national context to consolidate export capacity of organic food producers is shaped by the recently adopted Law “On Basic Principles and Requirements to Organic Production, Circulation, and Marking of Organic Products”. It would allow Ukraine to gradually get to the same level with the EU member-states in production quality, and possibilities of organic food sales. It would simplify the entry to European market to Ukrainian producers, and also provide for higher level of consumer health protection.

3. Program/Reform Outcomes



[photo 3. Inberry LLC growing organic blueberry have been undergoing certification with the support of the regional authorities for two years already*]

**source <https://news.agro-center.com.ua/>*

In 2017-2019, reimbursement of costs related to obtaining a certificate for organic food production was claimed by 6 companies in Sumy region. They include: “Vesvermiorganika” LLC (blueberry), Individual entrepreneur Marchenko A.M. (cucumbers, tomatoes, pepper, salad, onions, pumpkin, and other vegetables), Individual entrepreneur Tsvilov M.M. (millets, raspberry), Sumy National Agrarian University (buckwheat, spring barley, winter wheat, ginkgo biloba, grapes, raspberry, black current), Individual entrepreneur Horobivskyi R.I. (honey), “Mriya-SK” FE (buckwheat), a.o. In 2017, the regional budget partially reimbursed the costs for getting conformity certificates under EU standards in the area of organic agriculture in the amount UAH 16,500; in 2018 – UAH 24,500.

Pro-European reform, support from the state and from the region encourage organic food producers in Sumy region to explore the needs of the EU market and search for new formats to consolidate competitiveness in domestic and foreign markets. An example could be the experience of agricultural cooperation in the EU member-states. In 2017, in order to promote high-quality products by local producers, they established a civic Union “Organic Ukraine. North.” It brought together over 30 entrepreneurs. Currently, they plan to create a cooperative of organic berry producers for joint entry to European market. Some Program beneficiaries are already undergoing consultations with foreign partners to launch the exports of organic products to the EU member-states (such as to Baltic states, Germany, a.o.) starting from 2020.

HEALTHY AND QUALITY FOOD PRODUCTS MADE OF TRADITIONALLY UKRAINIAN CROPS: HEADING TOWARDS EUROPE

Hlukhiv, Sumy region

Summary

Agricultural raw materials are the basis for Ukrainian export to the EU. Thus, natural resources of Ukraine are affected. Besides, it restrains the country’s economic growth. Association Agreement does open the door for domestic exporters of agrarian food products due to reduction of import duty for most products. However, on the other hand, it encourages Ukrainian agrarians to supply to the EU market high quality products with the higher processing degree, rather than exporting raw materials. On the rebound of trade liberalization, the *Desnaland* company located in Sumy region opted to focus on the exports of highly nutritional food products made of traditionally Ukrainian crops, such as flax plant and hemp plant.

1. Background

State regulation of agroindustrial production in Ukraine does not have any clearly manifest component to focus on production increase of niche products. The current system of support incentivizes producers of highly marginal crops (corn and sunflower) who are not interested in their advanced processing. It conserves a raw material based exports model, and also exhausts Ukrainian soil resources.

2. Program/Reform Description

Pursuant to the Association Agreement Ukraine-EU, on January, 1, 2016, a Deep and Comprehensive Free Trade Area (DCFTA) came into effect. It provides for opening access to EU markets for Ukrainian producers. Thus, over 95% of all commodity items under Ukrainian Commodity Coding System (UKT ZED) became 0% duty for Ukraine. About 4% only stayed within the system of tariff regulation. The trade liberalization measures resulted in the growth of exports of agricultural and food products to the EU during 2016-2018. In addition, EU introduced quota for duty-free supply of Ukrainian agro-resource products. At the same time, the products resulting from a more advanced processing or treatment are usually covered by the quota. It fosters Ukrainian producers to increase the production of ready-to-eat products. For agrarians from the northern regions of Ukraine, one of the promising areas to depart from the raw materials exports is to redirect to fiber crops (flax plant, and hemp plant) and to produce niche food products of them.

3. Program/Reform Outcomes

European trends of healthy eating are enhancing the popularity of such niche food products as extra virgin flaxseed oil and hempseed oil, flour, bran and protein made of them. These products are in high demand with European consumers, while the EU market is rather capable. However, high competition in this market has been rather intimidating for Ukrainian exporters until recently. Reduction of import duties for plant oil derivative products to 0% catalyzed the intensification of exports activities of national agroindustrial producers on the EU market. Due to zero duty, their products have become more competitive pricewise.

Among the companies trying to consolidate on the EU market, there is also the *Desnaland* LLC (Hlukhiv, Sumy region). It identified its mission to produce products for healthy nation made of traditionally agricultural crops in Sumy region, such as flax plant, hemp plant, and pumpkin. In several years of operations, the range of products of the company has been enriched with over 10 more new kinds of interesting and healthy products (the new products include a vanilla and chocolate hempseed protein, pumpkin protein). The company treats the Association Agreement in general, and DCFTA in particular, as a context to avoid many barriers in foreign trade. It is definitely about cancelling the customs duty. Moreover, it is also about reduction of bureaucratic hurdles with shipping paperwork, simplification of documents for business trips, and visits to exhibitions and fairs due to visa free regime.

“Focus on quality not on quantity. Make sure that our people who live in our country, and also in other countries, would be happy buying our products, and they would know what they are buying... in Hlukhiv, there is a company eager to consolidate both on the EU and on the global level – why not?”

Serhiy Kurhalin, CEO at Desnaland LLC



This year, the first batches of products by *Desnaland* LLC came to Europe through local intermediaries. A welcome surprise for European partners was the quality of products (saturation with amino acids, full group of vitamins), and no synthetic flavours or preservatives, GMOs and GMO based substances, as confirmed by laboratory tests.

Transparency of the company and their readiness to cooperate encouraged EU partners to place further orders of Ukrainian products. Agreements have been reached on supply of hempseed oil to Italy. It is important to note that all products will be presented on the shelves of EU stores under the brand of *Desnaland* in the Ukrainian language.



[photo 4. Excellent taste, unique nutritional and treatment value and natural ingredients make the products from Desnaland LLC attractive for the EU market

However, the company does not mean to stop here. They have already started to explore into the specifics of direct entry to EU markets. Company experts are in the process of legal consultations, they travel to specialized fairs and workshops, take advice from colleagues from the sectoral association on technical aspects of exports, and on peculiarities of working with EU partners. The process is not easy to manage. Many questions still remain open. The negotiation process with foreign contractors is underway. They are further exploring the EU market, searching for experienced professionals who could assist the company in planning further confident steps in this area.

In the future, with the growth of exports volumes, the company is prepared to increase the production capacity and create new jobs, to expand the range of products, and to undertake certification in conformity with EU requirements. Investors are ready to fund further development of the company, in the event of keeping a positive dynamics in their advancement.

CHERKASY “PIONEER” IN ORGANICS IN THE EU MARKET: “KNOCK, AND IT SHALL BE OPENED TO YOU”

Cherkasy, Cherkasy region

Summary

Low consumption culture of organic food in the country and lack of trust to Ukrainian products in foreign market limit the capacity of production and export of Ukrainian organic food. Legal harmonization with the EU Acquis provided by the Association Agreement grants to Ukrainian products recognition opportunities in the EU markets. Cancellation of customs duties and increase of quota for organic food offer numerous advantages for agricultural producers specializing in organics. The benefits are tangible also for experienced business operators of Ukrainian organic food market. Due to trade liberalization, a Cherkasy based company “Pole” Agrofirma” increases export volumes, expands the range of products, and is going to enlarge its processing capacity.

1. Background

Despite huge opportunities for production and export of organic food products, competitiveness of Ukrainian producers in the EU market has been reduced only to price factor until recently. In fact, the imported products resulted more expensive, at least by the amount of import duty. Underdeveloped consumption culture for

organic food products and gaps in national law led to possible abuse of the terms “organic”, “eco”, or “bio” on food packaging, even though they could be unrelated to organic production. There were also quite a few cases of supplying low quality organic foods to the EU market. It undermined trust to Ukrainian producers, both on domestic, and on foreign markets. Consequently, even the decent exporters had to undergo additional assessments and incur costs for lab tests. EU citizens developed a negative perception of Ukrainian products.

2. Program/Reform Description

Temporary application of DCFTA came into effect on January, 1, 2016. However, as early as in April, 2014, the EU introduced for Ukraine autonomous trade preferences to support its economy in times of crisis. In addition to the DCFTA trade regime, Ukrainian exporters could sell their products to the EU under the Generalized System of Preferences for two more years. It offered significant liberalization of access to EU market for many Ukrainian products, thus increasing their competitiveness against the third countries business operators. Today, Ukraine is in top five countries supplying the largest volumes of organic food products to the EU market.

Pro-European reform in Ukraine created many opportunities to produce and sell to EU markets high quality finished food products, organic among them. On the one hand, it is in line with the implementation of the International system of Hazard Analysis and Critical Control Points (HACCP) approved by the Law of Ukraine “On Basic Principles and Requirements to Food Safety and Quality,” and supported by other legal acts.

On the other hand, it is about improving legal framework for organic production in Ukraine and its adaptation to the relevant EU acquis. It became effective with the adoption of the Law of Ukraine “On Key Principles and Requirements to Organic Production, Turnover, and Marking of Organic Products.” There are also counter-initiatives coming from the Ukrainian government, such as tax preferences for organic production; implementation of the National Program for Organic Food Catering in Educational Institutions; reputational, informational, and financial support to incentivize demand for organic food products; facilitation of cooperation between the organic food producers.

3. Program/Reform Outcomes

The “Pole” Agrofirma is an experienced producer of grain raw materials and their primary processing products in Cherkasy region. The company launched their exports activities 15 years ago. However, it was very difficult for them to struggle towards the expansion of trade: they rather had one-time supplies and short-term contracts. The share of export was only 10-12% of the total production volumes. The chance to overcome the standstill in their foreign trade and to implement their export capacity was available. The company experts managed to identify it in getting to the EU market of organic grain products.

The effect of the Deep and Comprehensive Free Trade Area with the EU was not a miracle for the company. In fact, they have been consistently developing in this direction of foreign trade. Thus, the company products have been certified as organic products since 2009, and have had the “euro-leaf.” However, the removal of customs duties in 2014 also enabled advantages over Russian and Chinese suppliers: over these years, the export volumes to the EU have doubled. The company managed to reach the export volumes of 90%, with half of it covered by Europe.



[photo 5. Organic millets and its derived products – valuable components for gluten free diets in high demand in the EU market]



“For Ukraine, we could set a target for several years to come, possible for 10 years, to reach the 20-30% export volume of organic products. These would rather be the processing industry products, not the raw materials. It is a promising area... It is much easier to compete with organic products on international markets.”

Ivan Tomenko, director, “Pole” Agrofirma LLC

However, tariff quotas for organic raw materials, whatever higher they are getting, inspire the company to more deeply develop processing activities. They are searching for foreign partners for joint investment in order to increase their processing capacity in Ukraine. They already have some ideas to produce millets oil. Another promising area is to increase the exports of organic flour and niche products of flour-milling industry. The items are included in the top ten agricultural products where organic share is large in the EU imports. There are plans to produce organic baby food. The company has had successful cooperation with the German bank ProKreditBank, and thus considers possibilities to get foreign loans to expand their business.

It is also supported by the reform on introducing HACCP food safety requirements. The company modernizes their technological lines; procures modern equipment to control product safety online; and undergoes the relevant inspections. In the near future, it would allow them to easily enter EU markets with the finished products made of organic materials. An additional incentive will be the legal regulation in the area of Ukrainian organic food products. It will make it easier to enter international markets with the certified products, and will also consolidate competitive positions against the pseudo-organic products that undermine trust to Ukrainian producers.

Ivan Tomenko, CEO of the company, strongly believes that the future lies in organic food products. The niche holds huge prospects. Here, the environment is not as competitive as on “conventional” markets, and there is no monopoly. Even more so, the price difference between organic and regular niche products is 50%. In the recent years, the company has increased its purchasing margin for organic food products up to 200%. They built strong long-term business relations with dozens of agricultural producers in Ukraine, and trust-based relationship with consumers in the EU. The company is aiming at cooperation with the agro-producers. Their experience and reputation, coupled with the benefits of free trade with the EU offer opportunities for local farmers to earn on organic food materials three times more than on regular products, while being sensitive to environment and health of nation.

PROFESSIONAL SUPPORT DOES MATTER: HOW WALLNUT CANDIES FROM CHERKASY REGION WIN EU MARKET

Tsybuliv, Cherkasy region

Summary

New exporters often lack support on their road to EU market. Many entrepreneurs feel lost amid the long list of various institutions offering support to foreign trade, or rather do not trust foreign experts. The case of partnership of a young Cherkasy company ARKMEN with the Office for Export Promotion is a valid evidence that there are many benefits for businesses in cooperating with professionals. ARKMEN has already won many hearts in the EU market of consumers who love natural ingredient sweets. Since the launch of exports, the company's range of products has tripled. The earnings have grown tenfold. The sweets are exported to Slovakia, Poland, Hungary, Czech Republic, Lithuania, the Netherlands, UAE, and South Korea.

1. Background

A broad network of export support institutions is hard to understand for entrepreneurs. They find it difficult to distinguish between the functions of different institutions and organizations. That is why it is complicated to find the entity competent in a certain case or issue. The capacity for cooperation of business and professionals from public authorities in the matters related to entering foreign markets remains underexploited due to lack of trust for authorities. Often, the business is not aware of any special programs or events to support exporters.

2. Program/Reform Description

Restricted access to the huge but unpretentious Russian market, and the opening of EU markets incentivized many entrepreneurs to raise their production levels. One of the facilitating factors also came from the simplified customs procedures. It made it possible to minimize bureaucracy.

3. Program/Reform Outcomes

The position is also supported by Oleksiy Parkhomenko, founder of the ARKMEN company in Cherkasy region. Since the onset, Oleksiy has been targeting foreign markets. Since 2017, the company has produced specific niche products – exquisite and natural confectionary of walnuts in chocolate glazing, and chocolate bars with caramel and low sugar content. All ingredients for candy production undergo thorough inspection and have quality certificates in line with international standards.

EU consumers have a mature culture of consuming such sweets, and are ready to buy high quality products at the respective prices. Whenever a new product gets to the shelves, customers cannot immediately know how to 'consume it'. That is why, to win their support and affection, one must present oneself at international fairs, conduct B2B meetings with foreign clients, adapt to conditions and requirements of each of them. The ARKMEN team was clearly aware of that. They attended various international exhibitions and fairs, food markets, and festivals. The results did not



[photo 6. ARKMEN Team is a frequent visitor at international exhibitions and fairs]

wait long. At the “Riga Food” fair, the products were appreciated by potential business partners. As soon as one year after establishment, the company supplied the first batch to South Korea. In the early 2019, the delivery started to Slovakia.



“It is a huge advantage that the chance is granted to those who can justify it: not just to work holes in the seats at the fair, but to conclude the contracts.”

Oleksiy Parkhomenko, founder at ARKMEN company

Major support in expanding ARKMEN’s export geography came from Export Promotion Office (hereinafter – the Office). They came to learn about the institution rather randomly. A business owner’s groupmate sent a link to their website. Company staff submitted an application, and were selected in a call to participate at the fair in Dubai. The Office also supported their participation in the trade missions to Israel and Georgia organized by EBRD, as part of EU initiative EU4Business. The benefits from the cooperation are undeniable. Since the launch of exports until today, the range of products has expanded threefold. The earnings have grown 10 times. Today, the candies are exported to Slovakia, Poland, Hungary, Czech Republic, Lithuania, the Netherlands, UAE, and South Korea.

“ARKMEN” LLC continuously applies for all export support calls by the Office to take part in fairs and trade missions. The exporters realized that the institution employs professionals who can duly represent Ukraine internationally, and who enjoy much respect. Entrepreneurs further intend to closely cooperate with the Office. Moreover, they are prepared to pay for their services. The team plans to expand the range of products even more, and win new markets: “We visualize how people all over the world taste the ARKMEN nuts with the smiles on their faces, and are thrilled to say in different languages: Смачно! Delicious! Pysznie! Magnifique! Che delizia!”

CHERKASY BRAND OF «HEALTHY» SNACKS IS PREPARED FOR THE EU: ADVANTAGES OF PROEUROPEAN REFORM

Cherkasy, Cherkasy region

Summary

Until recently, small businesses without any experience in foreign trade have found it extremely difficult to enter the demanding EU market, with an endless string of costs and troubles. Upon the launch of a set of pro-European reforms in Ukraine provided by the Association Agreement, food producers have found it easier to adapt to the rules of the game in the EU market. Trade liberalization and simplified procedures for arranging shipments cancel the last remaining barriers on the way of high quality and authentic Ukrainian products to European consumers. Cherkasy producer of “healthy” snacks “Eki-Neki” view EU market as a promising

opportunity for production and sales volumes. On the other side, today, pro-European programs and reforms help turn the ambitious dreams into reality.

1. Background

Small and medium size businesses of Ukraine share a widespread stereotype about the inapproachable EU market. They explain it by high requirements, and by non-competitiveness of domestic products compared to European counterparts. Exports of Ukrainian food products is treated as the most complicated challenge. In fact, before reaching European consumers, they have to confirm validate their conformity with the standards of quality and safety. In addition, new exporters often lack organizational, analytical, and advisory support, as well as special knowledge and competences in foreign trade.

2. Program/Reform Description

Among the tasks stipulated by the Association Agreement, about one third of Ukraine's commitments cover agrarian area, mostly focusing on sanitary and phyto-sanitary measures. In 2017-2018, a series of important legal provisions on food safety was adopted. They enable Ukrainian producers to act as full-fledged players in the EU market, in technical terms. They facilitate export and reduce customs duties, as well as simplify customs procedures. To support new Ukrainian exporters in 2018, an Office for Export Promotion was established at the Ministry for Economic Development. Today, it acts in a status of an independent state institution. It offers to Ukrainian producers multiple programs to develop their export competences, and a comprehensive support to enter foreign markets.

3. Program/Reform Outcomes

Institutional support of professionals on the early stages of export activities is especially important for small producers who have something to offer to the EU market. It can be illustrated by the story of Cherkasy producer of “healthy” snacks “Eki-Neki.” “Dinateks-Alfa” company is the only in Ukraine producer of mini-crisps made of gluten-free grains (corn, rice, buckwheat), with no flavor enhancers, artificial flavours, or preservatives. The product contains many minerals, and wholegrain fiber. It is fit for healthy diets, vegetarians, and is a healthy alternative to potato crisps.

“Search for added value for consumers, your unique offer, and benefit from your Ukrainian identity as a competitive advantage in the EU market,” – Olha Melnyk, the “Eki-Neki” mastermind, advises to regional producers.



[photo 7. “Eki-Neki” – Ukrainian snacks that will soon be appreciated by European fans of “healthy” snacks]

The production started with the intention to make a product out of local materials that are good for healthy nutrition and can surely be offered as a treat for your close ones. Today, the “Eki-Neki” brand has won trust and affection among consumers all over Ukraine. The company is prepared to enter EU market. They are trying to reach the highest standards of food products and compete on an international level. Thus, the company implemented a food safety control system of HACCP. In the near future, they plan to undergo certification under ISO 22000, and consider possibilities to get the labeling of Glutenfree and “euro-leaf.”

The company was inspired to cover exports also after their participation in various programs and projects for business support. Currently, they are drafting a plan of actions for exports to the EU market under the program *Export Evolution Pro* from the

Office for Export Promotion. They are doing an in-depth survey of the target market and of the sales channels. To start with, they opted for Estonia where the level of snack consumption is 3.5 times higher than in Ukraine, as well as for Czech Republic and Germany.

Despite difficulties with resources, “Dinateks – Alfa” company believe that continuation of pro-European reforms yields benefits for businesses and national economy in general. It implies enhancement of technology levels for Ukrainian producers, their competitiveness on international market, the country’s integration to European business community, a steady re-orientation of business away from the Russian market, and enhanced economic capacity of Ukraine.

LOCAL SUPPORT OF ORGANIC PRODUCERS IN CHERNIHIV REGION: FIRST FRUIT IN THE EU MARKET

Chernihiv region

Summary

The complicated procedures and high cost of organic products certification for Ukrainian farmers inhibit their export to the EU. Due to financial support of organic production provided from the regional budget, producers in Chernihiv region certified their products to conform with the EU organic standards, and established exports to EU member-states.

1. Background

Organic products market in Ukraine is starting to adapt to requirements of the Ukraine-EU Association Agreement. Lack of regulation in the area results in 100% certification of the market under international standards. It causes complexity and high cost of product certification, such as under EU requirements. Local organic products producers are concerned with the following challenges:

- laboratory testing of Organic Standard, the only notified certification authority in Europe, takes too long, thus leading to loss of foreign customers;
- duration of the laboratory testing is 3 months, while other European certification bodies take 12 months;
- due to costs incurred and other challenges faced by production, organic products export to EU is not economically reasonable without state support.

Since not all producers can afford the cost of the procedure, the share of organic food products in the total agro exports of Ukraine is rather low – 0.5%. At the same time, EU market is very promising for Ukrainian producers of organic food products. To compare, an average EU citizen spends EUR 60.5 a year for organic food products, while in Ukraine, consumption of such products per capita makes EUR 0.68 a year.



[photo 8. “Makyshyn Garden” farming company – a successful exporter of organic crops to the EU who receive the annual compensation of certification costs from the regional budget]

2. Program/Reform Description

In order to reduce the cost of local organic food products, and thus to provide for their competitiveness in domestic and foreign markets, Chernihiv regional state administration started implementing the Program for Financial Support for Organic Production in Chernihiv region for 2016-2021 (hereinafter – the Program). The Program implies reimbursement of costs to producers of agro-industrial products incurred due to conducting conformity assessment of the organic food products production (raw materials).

3. Program/Reform Outcomes

In 2016-2018, 11 companies in the region made use of the support. They were reimbursed the certification costs for conformity assessment of organic raw materials, in the total amount of UAH 730,000. The Program beneficiaries include: “Nizhyn Agroinvest” Farming Company, “Makyshynskyi Sad” Farming Company, “Ukrainian Agrarian Union” LLC, Zolotyi Parmen” Farming and Gardening Company, “Lymar” Farming Company, “Etnoprodukt” LLC, “Biotrading” LLC, “Agroluks” Farming Company, a.o.

In addition, the region offers organizational support to encourage participation of agroindustrial companies in an international agrofood fair “Agro” and in the regional forum “Organic Invest”. Regional budget funds covered the full cost of rent of exhibition stands and the cost of exhibition equipment, the cost of advertising and handout products that help better visibility of local products and enhance their consumption.



[photo 9. Local products of organic food producers “Zolotyi Parmen” at the agro-industrial fair]

Key outcomes of local support for organic food producers in Chernihiv region include: as of late 2018, the number of organic food producers was 16 business operators. It is 2.6 times higher than in 2015. Three farming businesses signed agreements to grow berry products and export them to EU. Three companies established the growing and sales of pumpkin seeds to produce organic oil. Three companies sell grains to EU member-states, either directly, or via the mediators. Two companies produce and export organic dairy products.

For many producers of organic food in Chernihiv region, financial and organizational support from the regional authorities offered a solid basis to enhance their position on domestic market, and to cover export capacity to the EU. Initiatives of local authorities help cover the large part of costs, and help promote locally produced organic food.

Thus, local government initiatives help further increase the capacity of organic food production, promote it among Ukrainian and foreign consumers. It creates important preconditions to activate performance of small farms and to provide decent living standards for rural population.

FROM THE OLD FEED STUFF PLANT TO PRODUCTION OF EUROPEAN QUALITY FLAKES

Mykhaylo-Kotsiubynske township, Chernihiv region

Summary

Unfavorable investment climate restricts the capacity to develop the market of agricultural processing companies in Ukraine. Instead, the Deep and Comprehensive Free Trade Area, with its tariff liberalization and procedural simplification, create favorable conditions to increase the exports of high-quality products with higher added value: cancellation of duties makes it competitive in the EU market, and unlike the raw materials, it is not covered by the tariff quotas. The example of a production facility of Avena HEAD “Dobrodiya Foods” LLC in Chernihiv region is illustrative in this respect. A favorable context of pro-European reforms in trade coupled with the urge of domestic entrepreneurs to launch the production of healthy foods is the way to modernize Ukrainian agroindustrial sector, to increase profitability of Ukrainian exports, and to overcome its resource-based focus.

1. Background

Chernihiv region is an area with large opportunities for agroindustrial production. Due to complex political situation in Ukraine, most investors are unwilling to invest into processing companies, while buying capacity of citizens is not instrumental to changing the range of products or technologies in conformity with current nutritional trends. It makes a vicious circle of issues: former industrial facilities are degrading; agricultural exporters sell large volumes of raw materials but lose in price, and thus incur extra cost for transportation; the resource-based exports model is consolidated; rural areas are dilapidating. With account for the fact that in long-term the prices for raw materials against prices for services and workforce are going to decrease, Ukraine is going to lose its advantageous position as an exporter of raw materials in the international market against countries producing finished products with higher added value.

2. Program/Reform Description

Due to launch of DCFTA, such as the reduction of export duties to 0% for over 95% of exportable product articles from Ukraine, the EU market has become very attractive for domestic producers of agricultural products. However, the major benefits from entering the EU market await the food industry companies producing superior quality products with advanced formulations (e.g., with the reduced content of fats, sugar, salt, enhanced with microelements for fans of healthy lifestyles, products for allergic individuals, etc.) made of local materials. Products in this niche enjoy high demand in the EU but also are not covered by tariff quotas.

3. Program/Reform Outcomes

Favorable trade regime with the EU shapes a positive context for increase of exports with higher added value in Ukraine. It incentivizes agrarian companies in Ukraine to launch state-of-the-art production facilities capable of producing high-quality food products in conformity with European nutritional trends. Thus, in 2017, national agroindustrial group *Agricom Group* signed a memorandum on cooperation with Chernihiv regional state administration. In spring, 2018, on the site of a half-ruined feedstuff plant in the township of Mykhaylo-Kotsiubynske, they officially launched the facility of *Avena HEAD - Dobrodiya Foods* LLC. They were designed to produce cereals and the derived products from grain crops, with the total capacity of 1,000 ton of finished products a month.

“We decided to become not merely an agricultural company, but to produce the high added value products... and offer healthy useful products grown in our land.”

Petro Melnyk, CEO at Agricom Group



[photo 10. Premises of the plant in the township of Mykhaylo-Kotsiubynske in Chernihiv region before and after the reconstruction]

Today, *Dobrodiya Foods* include the trademarks of “Dobrodiya” and “San Grano,” and produce over 50 articles of food products. They include, among others, the classic cereals, and the cereal mixes for sports and child nutrition, formula porridges, grain bars, a.o. According to the company’s Business Development Director Dmytro Romanov, EU is a very attractive market. Moreover, signing the Association Agreement, with its DCFTA, made Ukrainian products more competitive. High quality requirements set in the EU for food products are treated by the company as a “very good school for growth” and the opportunity to win a competitive advantage – such as the trust of European partners and consumers.



[photo 11. Products from Avena HEAD include over 50 product units of high quality food products recognized all over the world]

Equipping the production facilities with highly technological machinery by Bühler, and taking into account European requirements for manufacturing of products enabled the company to get the quality and production safety certificates confirmed by international audits under FSSC 22000, Organic Standard, HALAL, KOSHER. Over a year of its operations, the company has increased its supply volumes to the EU (Netherlands, Slovenia, Bulgaria, Romania) more than four times.

The company’s entry to the EU market was facilitated by consultations and organizational informative support from the Office for Exports Promotion.

Increase of exports will lead to increase of production volumes in general, when both the company and farmers from Chernihiv region are going to benefit. Traditionally, the place has been considered one of the most favorable regions to grow the oats, a basic raw material for company products. *Dobrodiya Foods* developed an exports strategy for different geographies, including also for EU. It aims at consistent increase of volumes, expansion of geography and the range of products. An important step is to promote the products (oatmeals, grain mixes) of FMCG segment (fast moving consumer goods), including also private label for European retailers.

EU MARKET SETS A HIGH LEVEL, THE AGREEMENT OPENS NEW OPPORTUNITIES, THE REST IS UP TO COMPETITION

Snovsk, Chernihiv region

Summary

Some five years ago, Ukrainian companies found it exceptionally challenging to compete in the EU market, with its high requirements to food quality and safety coupled with high tariff barriers. Reduction of exports duties for Ukrainian products offered significant advantages for domestic exporters pricewise, while reform of control system over food product safety provides preconditions for simplified access to high quality Ukrainian products to the EU market. Thus, introduction of European safety standards enabled unimpeded entry to the EU market for Shchors Food Products Plant, with their niche specialties. No need for customs duty allows to offer the products to EU consumers at attractive prices.

1. Background

Before the Association Agreement became effective, entering one of the largest, most powerful, and protected markets in the world, such as the EU market, seemed an exceptionally complicated task, even for experienced exporters. As compared to European producers, Ukrainian products were losing pricewise, at least by the amount of export duty. Besides, they had to compete with the profusion of companies from third countries. Considering the differences in European and Ukrainian quality and food safety standards, experiments with new product could cost a company significant losses.

2. Program/Reform Description

Free trade area with the EU, such as an asymmetric tariff liberalization in favour of Ukraine, creates unique opportunities for Ukrainian producers to increase and differentiate exports. However, in order to fully make use of the advantages of trade liberalization with the EU, domestic producers need to confirm conformity with high EU standards. A favourable context was created by the reform of control system for food safety. In particular, by September, 2019, all facilities producing food products were supposed to have introduced sanitary measures under HACCP (Hazard Analysis and Critical Control Points). In total, harmonization of Ukrainian law in the area of sanitary and phytosanitary measures with the European standards reduces the non-tariff barriers to enter the EU market for domestic exporters. Moreover, it decreases their costs due to simplification of trade procedures, including lower number of import permits and inspections.

3. Program/Reform Outcomes

“Shchors Food Product Plant” PJSC is a company in Chernihiv region with the 70-year-old history. It managed to keep the traditional recipes of candies, and also to successfully run the re-branding. Besides, they made a technological breakthrough and launched the deliveries of products to the European market, including also Baltic states, Germany, Romania, and Greece. In total, it is over 200 various product items to any taste: from candies and pastry to pastille and candied berries.



[photo 12. Meeting the high EU standards – strategic choice of the management at Shchors food products

However, keeping and consolidating competitive positions on a dynamic EU market with its high demands for quality and product safety is a rather complicated task even for such an experienced exporter as the “Shchors Food Products Plant.” Until recently, they have been competing for European consumers both with strong players from the EU, and from the third countries. Reduction of imports duties opened opportunities to compete in the EU market on the same level with EU producers. For example, after tariff liberalization, the imports duty for strawberry marmalade for Ukrainian producers went down to 0%, while for suppliers from third countries it was 24% + EUR 23 per each 100 kg.

Having the experience of cooperation with European contractors, the company realized that expansion of the range of products in line with the recent food consumption trends will lead to increase in sales. It encouraged the company to expand the pool of new specialties with the niche products, such as healthy candies: sugar-free “Fruiture” bars made of dried fruit and nuts, “Air Strawberry” and “Air Banana” of puffed rice and barley with dried strawberries and banana, and marmalade of real berries.



[photo 13. Athletes from all over the world choose *Fruiture* natural bars from the Shchors food products plant]

In order to fully make use of the possibilities to sell niche products in free market, it was important to verify quality conformity of products with the EU standards. In 2016, the company implemented the HACCP system of management of food safety, which is respectively marked on all labels and packaging materials of the company products. It enabled the natural Chernihiv produced candies to get to EU markets without impediments. Moreover, accessible prices are attracting increasingly more EU consumers. At the same time, the company does not distinguish between the products for export and for domestic market. All customers are equally valued that is why the quality criteria are equally high for all. The company is planning to cooperate with Slovakia, Hungary, and Spain.

The company team are convinced that implementation of the Association Agreement will enable confident steps further on the planned road, to build market relations with a sense of security for the future. For food producers who are investing much effort into quality assurance of products by thoroughly implementing HACCP, and are building business relations in a fair and transparent manner, it is the guarantee for receiving orders for their products, development prospects and consolidation of efforts with powerful and decent partners. For the country, on the other hand, these are the export-based sources for GDP growth.

BERRIES ON THE WAY TO EU MARKET: COOPERATION RESULTS BETWEEN CHERNIHIV FARMERS

Nizhyn, Chernihiv region

Summary

Exports of frozen berries and fruit is a promising approach for Ukrainian farmers to avoid losses from the seasonal price drops for fresh produce. It is also prompted by the opening of European markets, primarily tariff liberalization following the signing of the Association Agreement. Benefiting from the Deep and Comprehensive Free Trade Area, based on European approaches to organization of agricultural cooperation, and relying on the support from the state, a farming enterprise from Chernihiv region “Nizhyn Agroinvest” managed to establish deliveries of due quality frozen berries to EU member-states.

1. Background

Ukrainian berry farmers often suffer from losses due to seasonal price fluctuations for this perishable time-sensitive product. The issue may be tackled by fast freezing the berries and by further selling them throughout the year, including also to the EU markets. There, the demand for the products is persistently high. However, this is where domestic agrarians face a number of substantial barriers, such as lack of capacities for post-harvesting treatment and cooling, low quality level of products and food safety of production. Other significant barriers for export are undersized batches, incapacity to timely arrange the necessary paperwork, and to find contacts with the European partners.

2. Program/Reform Description

With the launch of the Deep and Comprehensive Free Trade Area, such as tariff liberalization, many Ukrainian agricultural producers received preferences in exports to the EU over third country suppliers. Thus, they became capable of competing pricewise with European farmers. For instance, as to frozen berries that are currently in healthy eating trend in Europe, cancellation of import duties for Ukrainian exporters enabled to reduce the prices by 12% to 14%. To support technical and technological modernization of the company to conform with the HACCP standards, and also to increase the export capacity at the cost of agricultural cooperation, governmental programs have been developed to support agriculture. In particular, it is the possibility to receive additional subventions for the operations of agricultural servicing cooperatives, and up to 40% of compensation from the cost of purchased equipment and machinery produced in Ukraine.

3. Program/Reform Outcomes

A farmer Andriy Bilyi started his berry paved road to Europe 5 years ago with one hectare of land. Today, the “Nizhyn Agroinvest” FE has 40 hectares of land where they grow strawberries, raspberries, blackberries, dewberries, and sea buckthorn berries. The idea to launch the berry processing was born in the context of challenges with selling raw products. Instead of selling the berries underpriced in high season, Andriy started freezing them and searching for contacts in Polish market. The first experience cost the company minus UAH 80,000. In fact, to fill the batch they needed to additionally buy the products from other producers. It was the lesson that “no man is an island.” In the beginning, they merely worked together with 3 or 4 farmers they knew. Currently, the agricultural servicing cooperative “Dary Chernihivshchyny” (*Gifts of Chernihiv Region*) has officially integrated 12 farmers from Chernihiv and Sumy regions.



“...entering European market you enter the world. There are leaders who have already gained high demand...if it were not for the free trade area the exports would be much more complicated... we do not have any additional customs duties to pay ... We can freely compete with producers from Europe.”

Andriy Bilyi, head of a farming enterprise “Nizhyn Agroinvest”

However, in order to enter bigger markets in Europe, one needed not only to unite but also to work under high quality requirements, to expand technologically, and to take the production up to a new level. The favorable environment can be created by reforms in the food safety control system.

They foster producers to invest into modernization of production. In this area, producers may rely on governmental support. It is about partial reimbursement of the cost of purchased agricultural machinery and equipment provided they are domestically produced. Today, the “Nizhyn Agroinvest” FE has a positive experience of such support. About 10% of the cost of refrigerating facility has been compensated from the central budget.

The company constructed a modern facility for shock-freezing, thus being the only Chernihiv based enterprise in the north of Ukraine capable of producing 8 tons of frozen berries a day. High product cost allows to confidently export it to the EU. On the other hand, the lack of customs duties and tariff quotas helps sell it to European consumers at attractive prices. Over the last two years, the “Dary Chernihivshchyny” ASC has sold to EU markets about 1.5 thousand tons of frozen berries of local produce. Andriy emphasizes that for successful competition with European producers, the tools of governmental support shall be enhanced and complemented.

The farmer is convinced that berry farming can quickly generate new jobs with decent earnings for village residents. Consolidation into cooperatives will enable access to technologies and contacts with the EU partners. Cancellation of customs duties and additional permits transform such companies into mutually beneficial business. “Dary Chernihivshchyny” ASC plans to expand the production facilities by 2.5 times. They develop the vegetable line and are ready to cooperate with farmers from Chernihiv, Sumy, Poltava, and Kyiv regions.



[photo 14. FE “Nizhyn Agroinvest” – the only company in the northern region of Ukraine producing frozen berries of European quality]