

The European Union's Tacis Programme for Moldova

Support to Export Promotion and Investment Attraction in the Republic of Moldova

Export Marketing Survey: Ukrainian Apparel Market

June, 2010
Author: Olexander Tsepko



This project is funded by
the European Union



A project implemented by
GFA Consulting Group in consortium with
IDI

Table of Contents:

1. INTRODUCTION AND METHODOLOGY.....	2
2. MAIN FINDINGS.....	3
3. OVERVIEW OF THE CURRENT SITUATION.....	3
4. PRODUCTION.....	9
5. PRICES AND PRODUCTION COSTS.....	13
6. APPAREL CONSUMPTION IN UKRAINE.....	16
7. SALES.....	17
8. EXPORT- IMPORT.....	19
9. MARKET ACCESS REQUIREMENTS.....	27
10. EXPORT: CONSTRAINTS AND OPPORTUNITIES.....	32
11. CONCLUSIONS.....	33
LIST OF ANNEXES.....	34

1. INTRODUCTION AND METHODOLOGY

The following market survey has been produced within Component 4 of the project “Support to Export Promotion and Investment Attraction in the Republic of Moldova”, financed by European Commission. The project is implemented by a GFA Consulting Group led consortium and embraces the following intervention areas, covered by below Components:

- **Component 1**

Support to Ministry of Economy and Trade and its agencies in coordinating and improving Moldova’s export and investment promotion systems

- **Component 2**

Support to Ministry of Agriculture and Food Industries in enhancing its system of testing laboratories

- **Component 3**

Support to Moldovan enterprises in accessing export development financing

- **Component 4**

Export promotion

- **Component 5**

Investment Promotion

The main objective of this survey is to provide Moldavian producers from apparel sector and related exporters with an overview of current situation in Ukrainian market for the respective products, highlighting recent trends, figuring out opportunities and obstacles for export of textile sector outputs to Ukraine as well as opportunities for cooperation within tolling schemes.

From this survey, the related target groups will be able to get full and objective information on:

- Ukrainian apparel sector state of play, current tendencies and perspectives;
- production of commodities under discussion;
- main distribution channels;
- actual prices and production costs;
- situation in external trade;
- market access requirements;
- opportunities and obstacles for export to Ukraine;

For interested stakeholders of Moldovan apparel sector, this survey may serve as a decision making background for evaluation of chances and opportunities for geographical expansion of their businesses as well as for enhancing cooperation with related stakeholders in Ukraine.

Following the main goal of this survey, its focuses and findings are linked to realities of Moldavian apparel sector in order to give tailor cut opinion on export/cooperation opportunities and obstacles.

The annexes of the survey contain further supporting information on:

- ✓ Contact database of Ukrainian importers;
- ✓ Contact database of main producers;
- ✓ Statistics on external trade, production and sales;
- ✓ Relevant trade fairs and exhibition in Ukraine planned for 2010;
- ✓ Links to full text versions of relevant regulatory acts;
- ✓ List of useful links:

As main sources for information, findings and recommendations presented in this survey served: available web-resources (links are provided in the **Annex 1**, monitoring of publications, official statistics, as well as interviews with representatives of related stakeholder groups (professional organizations, producers, importers, retailers, officials from selected ministries, customs, chamber of commerce, etc.)

2. MAIN FINDINGS

- The opportunities for Moldavian apparel exports to Ukraine are currently rather low, but feasible under certain conditions;
- Apparel sectors of Republic of Moldova and of Ukraine have similar problems;
- Supporting mechanism to sector development is inefficient;
- Around 90 % of Ukrainian apparel producers work on tolling contracts;
- Main bulk of Ukrainian consumers' demand in apparel is satisfied by imported outputs, almost half comes from China;
- Imported second hand seriously undermine Ukrainian apparel producing sector;
- No more than 10% of Ukrainian apparel producers work fully within legal framework;
- The development of own brands with collections meeting consumers' demand will be important in the next three years but will require major marketing and product design inputs.

3. OVERVIEW OF CURRENT SITUATION ON UKRAINIAN APPAREL MARKET:

GENERAL FACTS / TENDENCIES / FORECAST

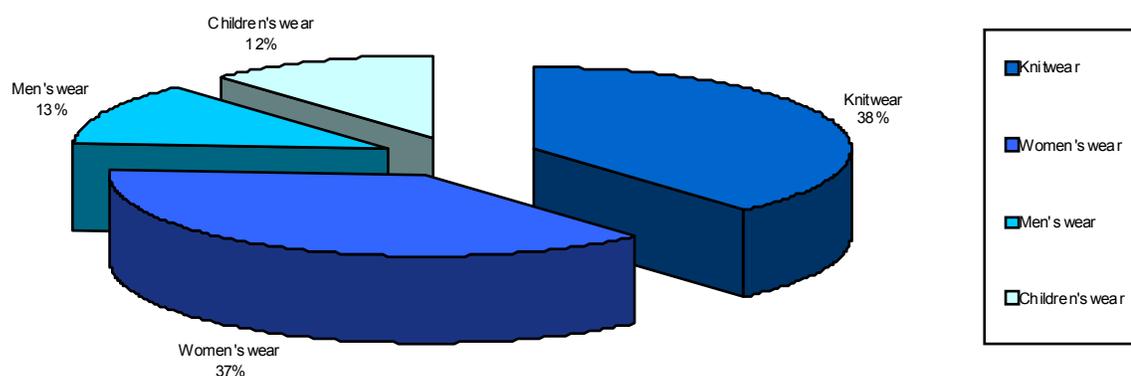
General Facts:

Ukrainian apparel sector is represented by roughly 6000 legal entities (including individual entrepreneurs), producing different types of textile wear, including fur and knitted goods.

The production capacities of this sector are present in all regions of Ukraine. Over 99% of all legal entities within apparel sector are in private ownership.

The most developed subsectors are Knitwear (38.5%) followed by Women wear (37, 3%), Men (12, 5%) and Children wear (11, 7%).

Diagram 1: Apparel Production in Ukraine by Subsectors



In total, apparel sector currently provides employment to 92, 1 thousand of working age population) with consolidated annual sales of 224, 3 mln Euro (in 6 months of 2009), contributing up to 0, 8 % to domestic GDP (official statistics, June 2009).

In terms of employment figures indicator, the main bulk of apparel sector enterprises refer to small and medium sized entities. It should be noted that official statistics do not cover all stakeholders within sector, in particular private entrepreneurs applying simplified tax system.

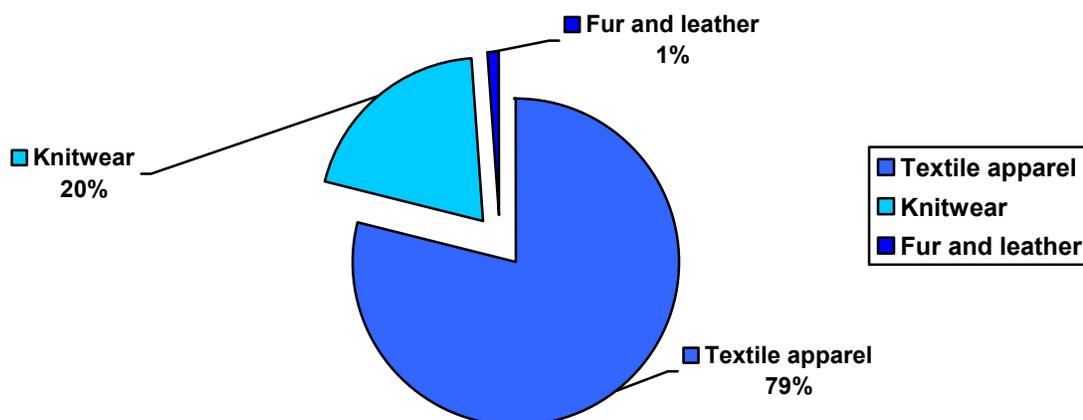
In estimates of Ukrainian Association of Light Industry (Associatsia Legprom) the annual apparel market value is about 7, 5 billion Euro, while official figure indicates only 365 million Euro. As stated above up to 90% of Ukrainian apparel sector is operating in shadow and grey schemes.

Shadow segment continues to grow recently, as in order to survive in crisis economy also some big and medium sized producers have to apply “grey” schemes to “optimize” the related cost structure.

Around 85% of all Ukrainian apparel producers have distinct commodity group specialization. Besides it, the producers are further subdivided by types of raw material

applied for apparel production, in particular into producers of: knitted goods, textile wear and fur/leather goods.

Diagram 2: Ukrainian Apparel Producers by types of Main Raw Material Applied in 2008, %



Informally, the producers are split into two main groups: Group 1 - “production only” oriented (production on tolling schemes/export oriented), which make up to 90% of all producers and Group 2 - “production and sales (mainly domestic) oriented”.

Regardless producers’ level of export orientation, the Ukrainian raw materials, in particular fabrics, are not widely recognized by apparel producers, as those from Group 1 use exclusively fabrics and accessories, supplied by the foreign contractor, while Group 2 prefers the imported fabrics (mainly of Chinese and Italian make), due to better “price-quality” ratio.

The majority of Ukrainian producers have no efficient strategies for development and promotion of their own brand names. There’re only a few national brands, mainly in men’s wear segment, known in Ukraine (VDOne, Arber, Michael Voronin), Kiev Knitwear Factory “Roza” for women’s wear and no national brand name for kid’s wear.

Out of a few Ukrainian brand names from apparel sector not a single one is widely recognized in Ukraine to say nothing about international market.

In spite of rapidly growing number of really gifted Ukrainian designers like, Natali Bolgar, Petro Soroka, Maria Collection, Silhouette, Miss M та Irina Krylova, TM Unique People: Loseva & Korovin, the national fashion industry as such, is on the early stages of its development.

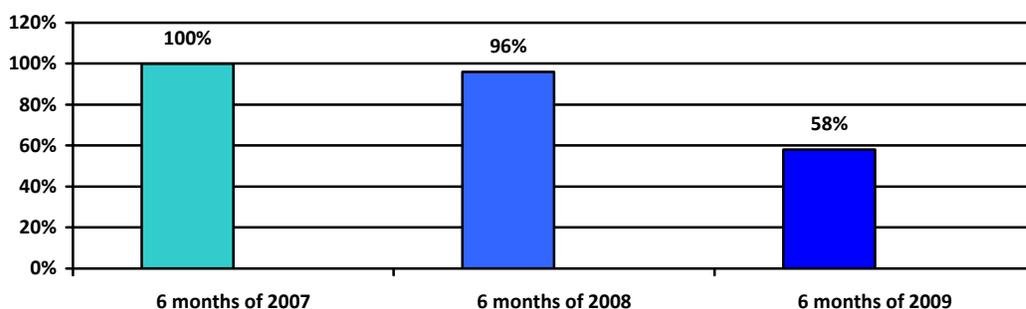
The main problem for Ukrainian brands development is absence of structured retail networks to contribute to brand’s recognition among customers.

Production facilities within Ukrainian apparel sector to 90% remain within ownership of domestic capital, as regulatory framework and business environment for foreign investors, who could contribute to sector development by modern marketing and sales promotion inputs, still remain out of attractive range.

Recent tendencies:

According to official statistics for the first half of 2009 the downsizing in apparel domestic production and sales continued. Economic crisis sharpened the negative tendencies in domestic apparel sector, resulting in 38% downsizing of overall apparel production in 6 months of 2009, compared to same period of 2008, with 4% downsizing in 6 months of 2008 compared to the first half of 2007.

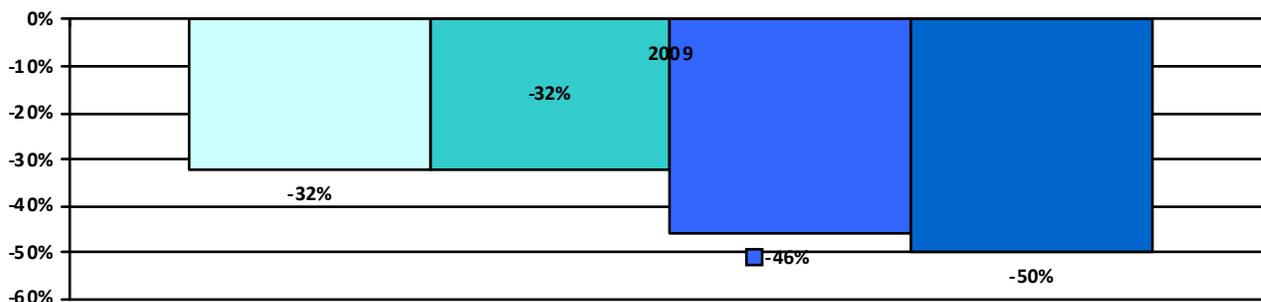
Diagram 3: Apparel production dynamics, %



Downsizing of apparel sales on global markets led to reconsideration of geography for production outsourcing by international brands owners. Tolling production costs in Ukraine could not be competitive to those in Asia, pushing Ukrainian apparel producers for more concerns in marketing issues, as such contributing to quantitative growth in number of enterprises within Group 2, which will result in increased competition in the sector under discussion.

According to Ukrlegprom Association, in 2009 the biggest downsizing is registered in production of women’s pants (-50%), knit wear (- 46%), coats and men’s wear (-32% each group):

Diagram 4: Apparel Production downsizing in 2009



In 2009 the only growth was registered in production of socks (by 21, 5%), however this indicator could be considered as positive tendency only conventionally, as almost 1/3 (13 mln. pairs) of socks produced in 2009 are stored in the producers' warehouses.

The consolidated balance depot stocks of domestic sewing industry, as of 1.09.2009 make up 7 mln m² fabrics (annual overall amount consumed by the sector around 55 mln m² of fabrics), 259 thousand units of knitted goods out of 787 000 produced.

Midterm forecast for sales in opinion of majority of experts is rather negative than positive. Under impact of global recession the apparel producers of Group 1 (tolling schemes) are rapidly reducing production volumes, resulting from cancellation of external loan contracts.

Negative tendencies in domestic apparel sales are mainly explained by the reduced purchasing capacity of Ukrainian consumers and by the ongoing expansion of cheap imported fabrics for total value of \$820 mln. (in the 1st half of 2009, according to official statistics).

In spite this figure being almost 3 times less than in the same period of 2008, the main bulk of imported apparel outputs cross the border of Ukraine either illegally or with considerably reduced values and/or volumes declared (e.g. average purchasing price for coats, men suits was declared to be around 3.7 Euro per unit).

The above facts push the domestically produced outputs far out of competition range, seriously undermining the market chances of Ukrainian apparel producers.

The anticipated positive impact of import downsizing on increase in sales for Ukrainian apparel was overestimated, as consumers' preferences remain within imported outputs, even if those are of lower quality or from second hand category.

In addition, the net costs for domestic outputs grew up recently, as the majority of Ukrainian apparel producers apply imported fabrics and outfit, which have become more expensive in Grivna equivalent.

The main bulk of consumers for domestic apparel outputs were "middle class" buyers, who are reported to mainly lose in purchasing capacity. The representatives from upper class are stable in their preferences for leading international brands, while low income buyers segment very often cannot afford "made in Ukraine" clothes, giving their preference to second hand alternative, which is another factor, negatively affecting the apparel production sector of Ukraine.

On the background of negative impact of current economic downturn, the majority of experts figure out certain positive tendencies, in particular expecting that crisis will speed up the dropout of inefficient players from the market, which may reach on various estimates up to 50% less domestic producers by the end of 2011.

In addition, global crises could be an enhancing factor to develop the whole sale segment for apparel made in Ukraine, which will serve as powerful engine for further development of domestic producers.

Main Constraints for Apparel Sector Development could be ranked as follows:

- absence of sector development strategy, attractive regulatory environment for sector investments;
- crisis in financial sector led to limited short term loan opportunities for support floating assets of producers;
- import of relevant outputs with reduced custom value declared;
- oversaturation of the domestic market by imported second hand apparel;
- lacking modern management, skilled personnel, equipment and technologies;
- absence of wholesale players on Ukrainian apparel market;
- considerable level of “shadow” producers in the country (estimated up to 90%) and illegal import;
- “fashion industry” still has not enough prominent names of domestic couturiers to serve as locomotive for sector development.

Regretfully, some of Ukrainian big scale apparel producers consider small enterprises and private entrepreneurs as one of constraints for sector development, mainly because the latter group applies simplified (lump sum) taxation scheme, which in opinion of big scale producers creates unequal competition on the market (currently the overall production costs of small scale producers are in average 6 times lower).

Activities to Support Apparel Sector Development:

In spite of WTO requirements and regulations, some stakeholders of Ukrainian apparel producers’ sector, acting through professional associations, like e.g. Association “Ukrlegprom”, try to lobby certain market preferences, striving in particular for granting special conditions in terms of tax policy, loan schemes, limited access of foreign companies to participation in public tenders, etc., in favour of local apparel market players.

Recently adopted regulation on zero VAT on imported equipment for light industry could be considered as successful achievement of apparel lobbyists.

All efforts from domestic “sewing lobby” aimed at protection of national market from second hand led to no results till date. In spite the governmental degree from 2008, targeted at blocking second hand apparel import, as raw material for processing and recycling and follow up Resolution of the Cabinet of Ministers from 2009, which has limited the number of state border crossing custom points to 16 for second hand apparel, its amounts keep growing from year to year.

Numerous attempts to enhance the development of Ukrainian apparel sector, made practically by all Cabinets till date, including recently adopted (12.11.2008) Resolution of Ukrainian Cabinet of Ministers “On Urgent Measures to Stabilize the Situation in the Light Industry”, as well as earlier adopted Concept of the State Programme for Development of Light Industry in Ukraine (№673 from 7.12.2006) had no efficient impact on improvements, required by the sector.

4. PRODUCTION

Ukrainian apparel sector is represented by roughly 6000 legal entities (including private entrepreneurs – small scale producers and individuals), producing different types of textile clothing, including fur and knitted goods. The production capacities of this sector are present in all regions of Ukraine. Over 99% of all legal entities within apparel sector are in private ownership.

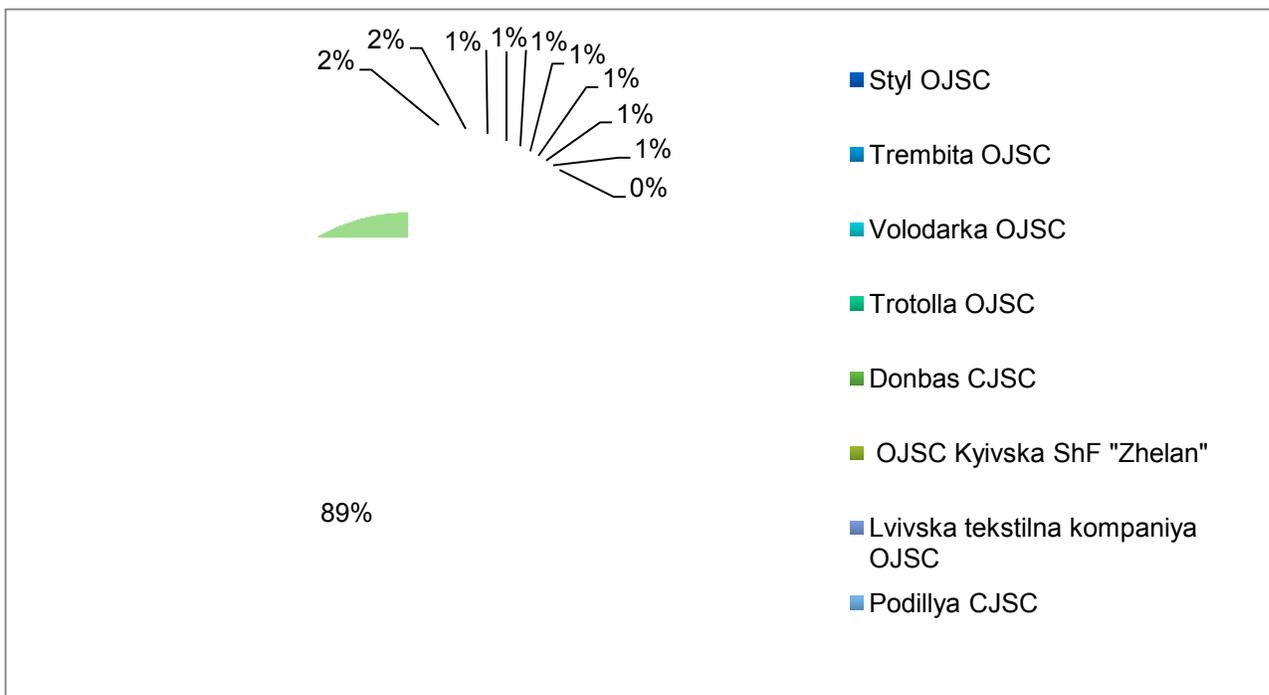
Out of all Ukrainian producers, 351 enterprises refer to medium and big scale production entities.

Among biggest players the following companies should be mentioned: Styl JSC, Trembita JSC, Volodarka JSC, Trottola JSC, Donbas JSC, Kyivska ShF "Zhelan" JSC, "Lvivska tekstilna kompaniya" JSC, "Podillya" JSC, "Elegant" JSC, Sofiya JSC which produce together up to 12% of all apparel made in Ukraine (for contact details, please refer to Annex 2).

The main bulk of Ukrainian make apparel comes from mid/small scale entities and individual entrepreneurs.

In terms of outputs produced, there's no distinct leader among Ukrainian producers, as none of players cover more than 2% from overall production volume, as shown on the below Diagram.

Diagram 5: Shares of Domestic Producers in Overall Apparel Production Volume, %



«Emergents Business Solutions» Survey, financed by USAID Bizpro Project (2006).

In total, apparel sector currently provides employment to 92, 1 thousand people (750 000 in 1990) with consolidated annual sales of 224, 3 mln Euro (in 6 months of 2009), contributing up to 0, 8 % (20% in 1990) to domestic GDP (official statistics, June 2009).

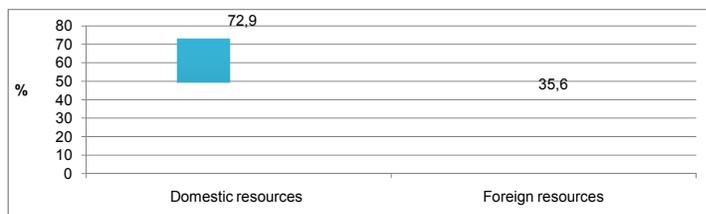
In terms of employment figures, the main bulk (around 95%) of apparel sector enterprises refer to small and medium sized entities.

Origin of Raw Materials applied

In production costs structure of average apparel producing unit the raw materials take up to 60%. The ratio of fabrics, fancy goods and other elements imported to Ukraine vary considerably from producer to producer, depending on its customer segment, specialization and export constituent of the producer.

In general, domestically made raw materials are applied more often, in comparison to the imported, as shown below:

Diagram 6: Origin of Main Raw Materials, %

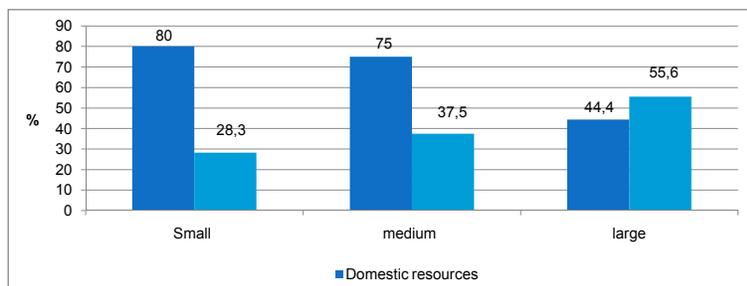


«Emergex Business Solutions» Survey, financed by USAID Bizpro Project

Big scale producers, in comparison to medium and small enterprises, apply more imported raw materials. This category of producers, having the bigger export constituent, mainly due to tolling contracts are oriented on mid to high price segment of clothing, so they have to keep to the highest standards, which could be achieved mainly by applying the imported outputs from recognized producers, as, unfortunately, the domestic ones still do not fully meet the market requirements neither in terms of quality and nor in assortment.

The majority of mid to small scale producers are more oriented on domestic market and on the low price segment customer, thus having less proportion of imported outputs in the raw materials structure, as shown below. The imported raw materials for this category of producers are mainly of the low price segment.

Diagram 7: Origin of Raw Materials, depending from Producers' Category, %



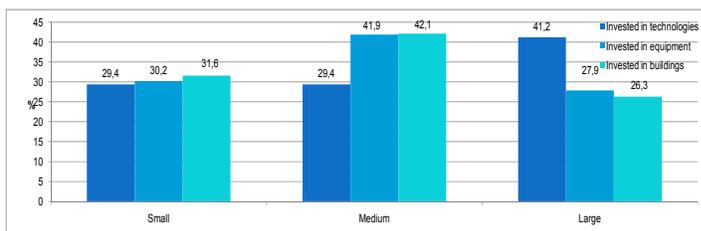
«Emergcs Business Solutions» Survey, financed by USAID Bizpro Project

In terms of imported raw material geography, the main suppliers to Ukrainian apparel producers are Italy, Germany, Great Britain, Russia, Turkey, India, China and S. Korea. System of raw material distribution embraces around 80 Ukrainian producers and up to 50 big scale importers with highly developed whole sale component.

Investments into Apparel Production Sector:

Level of investments depends mainly from export constituent within enterprise's sales structure. Export oriented producers, the majority of which de facto work on tolling contracts, in order to meet the contractor's requirements and keep the production costs low, have to streamline considerable part of revenues into new equipment. Level of investments among mid and small producers being lower than of big producers, however driven by steadily growing competition on Ukrainian apparel market, is a part of development concepts for the majority of enterprises within this category.

Diagram 8: Investment Structure by Size of Enterprise, %



«Emergcs Business Solutions» Survey, financed by USAID Bizpro Project

Level of foreign direct investments into apparel production sector grew up inconsiderably at the beginning of 2010, compared to relevant indicators of 24, 4 mln. USD for January 2009 and 25, 4 mln USD for January 2010. If compared to the level of FDI in previous year considerable downsizing is observed (38,5 mln. USD in 2005, 27, 5 mln USD in 2008). It

should be noted, that the indicators for foreign investments into Ukrainian apparel sector are influenced by prepayments and supplies within tolling contracts and schemes, thus being relatively high through the months within a year and shrinking to its minimum every December.

Innovations within apparel producers:

Introduction of new technologies is not in the high priority for majority of Ukrainian apparel producers. Only 19% of all enterprises invested into innovations within last 5 years.

Big players are more active investing into new technologies, making 66% among all producers, while medium and small enterprises invested 22 % and 12% respectively. Besides clear dependence of investment activity from export constituent within enterprises' sales structure, lower activity indicator for small and medium sized entities could also be explained by the limited access to the borrowed financial resources for this category.

Downsizing of Production Figures:

According to official statistics for the first half of 2009 the downsizing in apparel domestic production and sales continued to grow. Economic crises sharpened the negative tendencies in domestic apparel sector, resulting in 38% downsizing of overall apparel production in 6 months of 2009, compared to same period of 2008, 4% downsizing in 6 months of 2008 compared to the first half of 2007.

Downsizing of apparel sales on global markets led to reconsideration of geography for production outsourcing by international brand owners. Tolling production costs in Ukraine could not be competitive to those in Asia, pushing Ukrainian apparel producers to more frequent concerns in marketing issues, as such contributing to quantitative growth in number of enterprises within Group 2, which will result in increased competition in the sector under discussion.

According to Ukrlegprom Association, in 2009 the biggest downsizing is registered in the production of According to Ukrlegprom Association, in 2009 the biggest downsizing is registered in the production of women's pants (-50%), knit wear (46%), coats and men's wear (-32% each group):

In 2009 the only growth is registered in production of socks (by 21, 5%), however this indicator could be considered as positive tendency only conventionally, as almost 1/3 (13 mln. pairs) of socks produced in 2009 are stored in the producers' warehouses.

In terms of production volumes, arising from official statistics of 2009, the most developed subsectors are Knitwear (38.5%) followed by women's clothing (37, 3%), men's clothing (12, 5%) and children's clothing (11, 7%).

Detailed official statistics on production by main apparel types (2008-2009) are presented in Annex 3.

5. PRICES AND PRODUCTION COSTS

According to UBS recent research data (June, 2009), an average global price of indicative garment set makes up to \$500 for a woman (skirt, jacket, blouse, incl. shoes), and \$680 – for a man (suit, jeans, shirt, incl. shoes).

In Kiev, the above indicators being \$340 for women and \$420, with overall index rating of 43 points (New-York-100 points, Moscow – 60 points).

Currently, retail prices for main apparel commodities for both imported and domestically produced outputs continue to grow in Ukraine, making up to 25-30% increase while comparing March 2010 to March 2009. Main reasons for price growth in Ukraine in general as well as in apparel sector in particular are inflation, devaluation of national currency, increased production costs (mainly for energy carriers), and recently imposed import tax of 13% on custom value declared regarding, among other imported commodities also garment, fur coats, knitted wear, textiles, shoes and headwear.

In opinion of some experts the import tax as a measure to protect the local apparel producers may lead to washing out the middle price segment commodities from the market, resulting in polarisation within certain commodity groups: prevailing low price/quality and high price segment luxury apparel.

The temporary niche opening is unlikely to become an opportunity for Ukrainian producers, as they won't be in position to replace the mid price segment import within short period, mainly because of limited duration of the imposed import tax regulation (up to max 6 months) and currently lacking credit resources in the country.

From the other side, the price growth is limited by customers' purchasing capacity, which keeps downsizing. It led to increased level of "grey" apparel imports, as Ukrainian apparel importers in order to survive increasingly continue to declare the reduced value of imported commodities.

As clearly seen from the below table, the average price for similar apparel groups for exported commodities in majority of cases is considerably (in times!) higher than for imported goods.

Table 1: Comparison of Average Prices for Imported/Exported Apparel (in USD per Kilogram)

Code	Commodity	Average price of commodities exported in 2008, USD/kg			Average price of commodities imported in 2008, USD/kg		
		I qtr.	II qtr.	III qtr.	I qtr.	II qtr.	III qtr.
6101	Men's knitted coat	38,50	46,00	41,00	32,80	45,00	37,38
6102	Women's knitted coat	33,00	45,40	43,33	40,83	16,56	26,27
6103	Men's knitted suit	26,32	23,38	25,56	14,22	12,22	13,43
6104	Women's knitted suit	25,15	26,36	25,70	12,43	10,22	11,05
6105	Men's knitted shirt	-	4,36	5,91	8,55	11,48	9,66
6106	Women's knitted blouse	19,36	21,11	20,15	10,45	10,20	10,30
6107	Knitted underpants	9,29	15,05	11,95	1,25	1,21	1,23
6108	Knitted slips, panties	25,47	28,75	27,24	4,60	5,01	4,83
6109	Knitted tank tops, polo shirts	22,53	22,74	22,63	3,69	3,09	3,33

6110	Knitted sweaters, pullovers	23,73	24,01	23,89	4,82	7,02	5,27
6111	Children's knitwear	12,93	20,25	16,12	19,08	21,97	20,36
6112	Leisure suits	65,33	56,40	62,62	10,94	5,55	7,52
6113	Knitwear	-	25,20	25,20	9,00	10,00	9,75
6114	Other knitwear	35,78	35,67	35,73	4,19	3,63	3,91
6115	Tights	14,42	14,62	14,53	4,19	3,01	3,52
6201	Men's coats	55,35	46,68	49,64	4,84	5,13	4,93
6202	Women's coats	47,24	36,66	38,14	5,65	6,03	5,76
6203	Men's suits	28,42	27,82	28,15	5,24	5,21	5,23
6204	Women's suits	38,66	39,49	39,01	6,39	6,71	6,58
6205	Shirts	35,67	37,77	36,71	4,32	4,72	4,53
6206	Blouses	50,19	52,24	50,90	8,47	8,74	8,64
6207	Men's tank tops, undershorts	10,00	22,00	16,00	3,95	3,48	3,81
6208	Women's tank tops, shirts	32,000	2,90	4,58	4,06	4,57	4,30
6209	Children's clothes	26,80	46,25	35,44	9,25	15,66	11,95
6210	Other clothes	26,61	28,46	27,76	4,76	7,19	5,33
6309	Second Hand	0,80	1,17	1,06	0,64	0,68	0,66

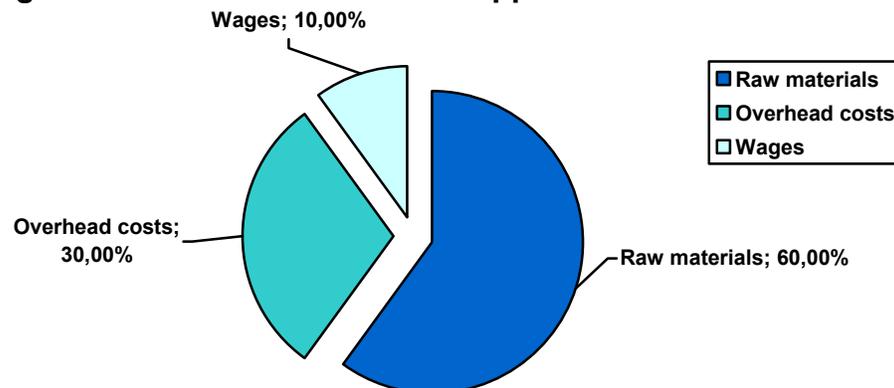
Official Statistics, July 2008 (Derzhkomstat)

In general, the average consumer cost index keeps growing in Ukraine, however the growth rate slowed down recently, from 125, 2% in October 2008 to 116, 5% in October 2009. In some experts' opinion, the consumers' costs growth may continue at least till the end of 2010, although this depends to great extend from the efficiency of measures by the recently nominated Cabinet of Ministers of Ukraine.

Production Costs Structure:

According to data of Kiev State University for Technology and Design an approximate cost structure looks as follows: raw materials- up to 60% (70 to 80% during USSR period), 30% - overhead costs for big and middle sized enterprises (15-20% for small scale producers), 10% - wages (8% in USSR)

Diagram 12: Average cost structure in Ukrainian apparel sector



An average official salary per month in apparel production sector (January - June 2009) made up 939 UAH (around 100 Euro), which makes 51,8% from average salary in overall national economy.

Official salary level, being rather low, compared to other sectors, has a tendency of considerable downsizing in 6 months of 2009 (98,5% compared to the 1st half of 2008).

It should be noted here, that official statistics do not realistically reflect the real salary level within sector. The salary related taxes, payments, etc. make up over 50% from gross wages. To “optimize” this cost center some of employers apply illegal and/or semi-legal methods, like e.g. registration of the employers as private entrepreneurs, who formally pay a lump sum tax of max. 200 UAH (20 Euro) per month. On various estimates an average monthly salary for a sewer in reality is around 300 - 350 Euro.

Electricity is one of the main energy resources applied in technological process of apparel production, making up to 10% in the production cost structure. From October the KWt price for apparel sector enterprises was increased to 0,55/0,73 UAH (0,05-0,07 Euro for various types of users).

This step resulted in considerable increase of the production cost, which together with other cost factors is close now to the cost level of apparel producers in Italy. That’s why, still small but growing number of Ukrainian producers, TMs, etc., consider the opportunities of production outsourcing, having in view not only traditional South East Region, but also exploring opportunities in other regions.

Under current conditions the medium sized enterprises turned out to be more effective in terms of profitability: 53, 7% of medium sized enterprises made profit, while this indicator for big and small scale producers was 46, 9% and 42, 1 % respectively.

Economic downturn, absence of realistic sector development policy and lack of efficient supporting measures led to serious consequences for apparel sector. The year of 2008 ended up with positive financial results for 62, 8% of all apparel producers, which reported the consolidated profit of 273,8 million UAH (around 26 mln. Euro), while the remaining 37,2% made losses of 984,5 mln. UAH (around 98 mln. Euro).

An average profitability within apparel producers made up 1, 9% in 2009.

6. APPAREL CONSUMPTION IN UKRAINE

To main consumer groups within apparel sector refer private consumers (individuals), organizations of public sector, businesses and social institutions.

Individuals make the main bulk of apparel consumers, up to 85% on various estimates. Official statistics for consumption within this consumer group indicates stable tendencies in Ukraine. In spite of downsizing in purchasing power, in 2007, spending for apparel (together with footwear) remained similar to previous year, making up to 1833,72 UAH (around 180 Euro) per household in 2008, which equals to 31,5 billion UAH (3,15 billion Euro) of consolidated expenditures for apparel and foot wear of all Ukrainian households (17 196 296 households in 2008).

Table 2: Expenditures per household

	2002	2003	2004	2005	2006	2007	2008
Aggregate Expenditures of a household in UAH per Month	658,3	736,8	903,5	1229,4	1442,8	1722,0	2590,4
Consumer Aggregate Spending (%)	92,8	93,3	92,6	91,1	90,5	90,0	86,2
Spending for Apparel and Footwear (% from above line)	5,4	5,3	5,7	5,7	5,8	5,9	5,9

*Derzhkomstat of Ukraine 2009

Assuming that average apparel/footwear expenditures ratio is 2/1, nationwide expenditures for apparel of individual consumers in 2008 reached 21 billion UAH (2,1 billion Euro)..

According to individuals' purchasing power rating, outlined in the survey by GfK Purchasing Power Europe 2008/2009, Ukraine landed in 40th position among 41 countries which were monitored in the above survey (41st position - Republic of Moldova).

According to GfK survey, in 2008 an average European consumer spent 12,5 thousand Euro for consumer goods (including apparel), while an average Ukrainian consumer spent only 1,688 thousand Euro (800 Euro per consumer in Moldova in 2008).

Analyzing the individual annual income statistics, certain slow down in income growth tempo is observed.

Table 3: Growing tempo Ukrainian Population's Income Dynamic (2002-2008)

	2002	2003	2004	2005	2006	2007	2008
Income per person, in UAH	2938,0	3400,3	4468,4	6332,1	7771,0	10126,0	13716,3
Income per person, in % to previous year	118,0	109,1	119,6	123,9	111,8	114,8	107,6

In spite of formally growing population's income (see above Chart) and consumers' expenditures, the de-facto consumers' purchasing capacity in Ukraine goes down. According to GfK research made in 2007, Ukraine possessed 39th position in purchasing power of the population (40th in 2008). This tendency is expected to remain at least till early 2011.

Demographics:

As orientation for marketing purposes some demographics indicators in population structure of Ukraine in December 2009:

Table 4: Demographic statistics

Total Population, in thous.	46 143,7
<i>among them:</i>	
Urban	31 587,2
Rural	14 556,5
Female	24 778,4
Male	21 185,0
Population in the age from 15 to 70 y.o.	22 397,4

© Derzhkomstat Ukraine , 1998-2010

Population figures for Ukraine keep going down from almost 52 mln in 1990 to some 46 mln by December 2009. On various estimates, from 2001 till date, up to 5 mln Ukrainian citizens left the country as labour migrants.

7. SALES

Apparel commodities input into national retail trade, according to official statistics, has not changed a lot since 2005, balancing between 1,2 and 1,4% from the indicator for all types of commodities sold in Ukrainian retail. In absolute figures the consolidated value of all apparel commodities sold in 2008 made up 3,5 billion UAH (around 350 million Euro)

Table 5: Apparel Commodities in Ukrainian Retail: Dynamics 2005-2008

	mln. UAH				% to all commodities sold in retail			
	2005	2006	2007	2008	2005	2006	2007	2008
All commodities sold:	94332	12995	17823	24690	100	100	100	100
Clothes and linen made of fabric	755	1035	1322	2080	0,8	0,8	0,7	0,8
Leather and fur clothes and other items	23	40	41	104	0,0	0,0	0,0	0,0
Knitted outer- and underwear	260	334	525	868	0,3	0,3	0,3	0,4
Hosiery	96	170	269	426	0,1	0,1	0,2	0,2

© Derzhkomstat Ukraine , 1998-2010

After serious collapse of 90' for Ukrainian apparel industry, there was a slow recovery for domestically produced commodities, regaining up to 30-50% of sales for various commodity groups on the domestic market in 2001-2004.

Starting from 2005, the Ukrainian producers' share in apparel sales for majority of apparel types started to go down, with exception for hosiery. According to official statistics, in 2008 the share of Ukrainian apparel in retail trade for textile apparel was around 16%, for knitted wear - less than 10%. The biggest downsizing in sales is reported for Ukrainian fur and leather apparel from 81,2% in 2005 to 24,5% in 2008.

Table 6: Apparel and Related Commodities of Ukrainian Origin in National Retail Trade, %

	2005	2006	2007	2008
Clothes and linen made of fabric	23,5	19,8	18,7	16,6
Leather and fur clothes and other items	81,2	61,8	41,6	24,5
Knitted outer- and underwear	16,9	16,0	12,0	9,8
Leg wear	45,8	38,8	41,4	58,6

© Derzhkomstat Ukraine, 1998-2010

In 2008 growth of sales of Ukrainian apparel was registered only for leg wear (from 41 to 58 % comparing to previous year).

None of Ukrainian apparel producers, as shown in the below Table, exceeds 2% of shares in overall annual apparel sales.

Table 7: Top Ten Ukrainian Apparel Producers in Sales

№	Apparel Producing Enterprises	Sales per Anno, in thous. UAH
1	Styl OJSC	40 616,9
2	Trembita OJSC	34 160,5
3	Volodarka OJSC	28 380,8
4	Trottola OJSC	26 642,3
5	Donbas CJSC	16 357,1
6	Kyivska ShF "Zhelan" OJSC	14 177,9
7	Lvivska tekstilna kompaniya CJSC	12 255,9
8	Podillya CJSC	12 239,3
9	ShP "Elegant" (Melitopol) OJSC	11 595,0
10	Sofiya OJSC	10 028,0

On the background of growing apparel proposition (see table below), which is observed by practically all apparel types, the Ukrainian producers in order to stay at least within previous market shares, have to apply modern marketing and sales instruments, investing more into creation of national brands and selling networks. Regrettably, these activities are constrained by lacking financial resources and skilled personnel.

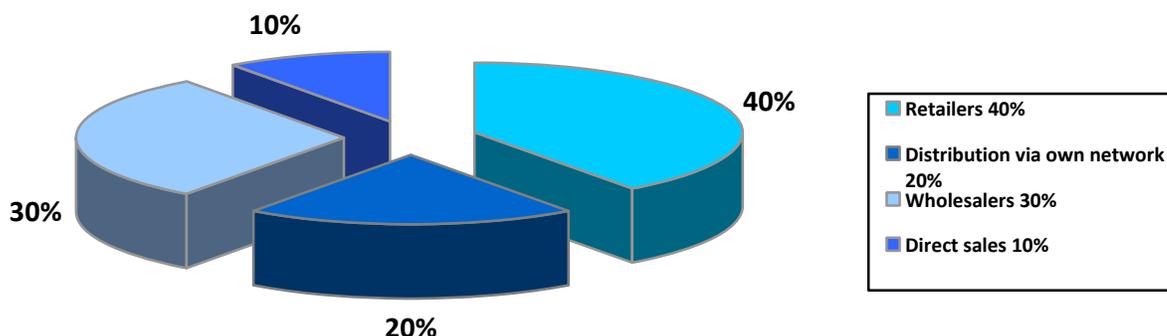
Table 8: Indices of Physical Existence of Selected Commodities in Retail Trade of Ukraine

	2005	2006	2007	2008
Clothes and linen made of fabric	146,9	134,9	125,9	153,5
Leather and fur clothes and other items	65,5	176,4	102,0	253,4
Knitted outer- and underwear	142,5	78,2	127,8	174,9
Hosiery	135,4	125,5	154,2	159,7
Clothes and linen made of fabric	153,1	171,6	152,6	148,6

© Derzhkomstat Ukraine , 1998-2010

Currently, in sales structure by distribution channels for both imported and domestically produced apparel prevail the retailers – around 40% (represented to 70% by small scale and bazaar traders), followed by wholesalers 30%- (mainly big importers), followed by distribution via producers’ own network – 20% (mainly international brands) and direct sales from domestic producers’ warehouses and outlets -10% (mainly supplies on public tenders).

Diagram 17: Sales Structure by Type of Distribution, %



The traditional distributional channel: from producers’ warehouse to end-consumers via wholesalers and retailers turned out to be no longer efficient. On the background of increasing competition on the apparel market and influence of additional factors like, growing of second hand volumes, illegally/semi-legally imported imports, etc., the main part of local producers understand the urgent need for changes in favour of more profitable distribution channels, considering in the first turn sales via producers’ distribution network. Regrettably, the implementation of these improvements remains within “intention” category, due to lacking financial resources and skilled professionals.

8. EXPORT- IMPORT

Since Ukraine’s WTO accession (16.05.2008), national regulations for both internal and external trade have been harmonized with requirements of this organization.

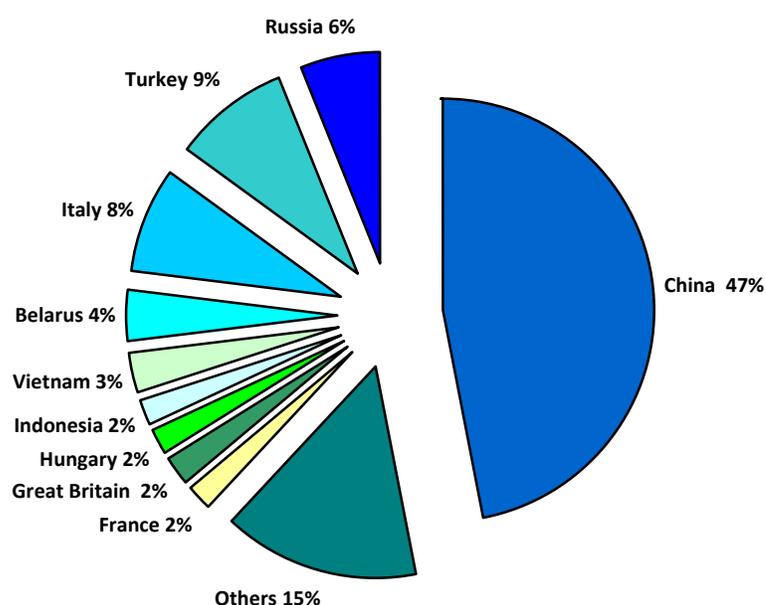
Overall external trade indicators for 2009 show considerable downsizing (39,6%), compared to 2008. As for apparel sector export/import figures the downsizing is a bit lower than

average, being of 38,8%, with downsizing for exported apparel of 39,7%, for import – 37,9%.

Apparel external trade balance traditionally remains in favour for import. In 2007 imported apparel exceeded export volumes by 1,2 times, in 2008 – almost 2 times. The spread between export and import reached 44,1 % for more imported commodities in 2009.

The Ukrainian consumers' demand is covered to around 85 % by imported textile apparel, which mainly comes from China (47%), followed by supplies from Turkey, Italy, Russia, etc.

Diagram 19: Import of textile apparel by countries, %



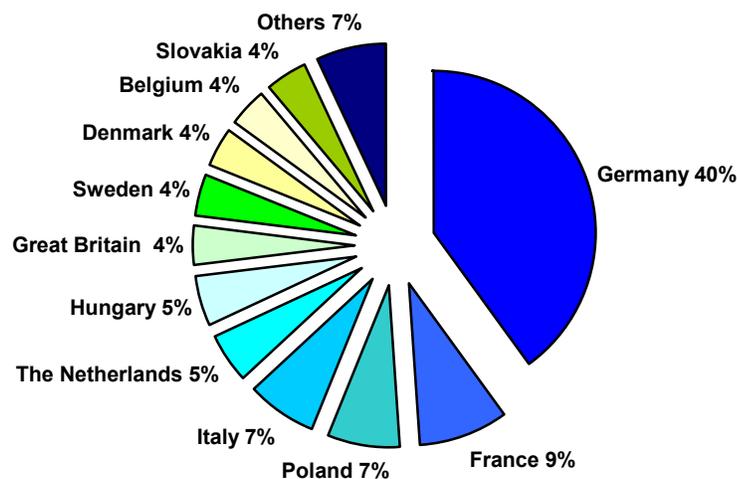
Based on import statistics, main groups of imported apparel could be ranked as follows:

- Women's and girls' wear (Group 6204000000: Suits, jackets, twin sets, dresses, skirts, pant skirts, pants, breeches and briefs);
- Men's and boys' wear: (Group 6203000000: Suits, twin sets, jackets, pants, jumpsuits, briefs and breeches);
- Women's and girls' night wear and underwear (Group 6208000000);
- Knitwear (Group 6110000000: Sweaters, pullovers, vests and similar items, including thin sweaters);
- Men's and boys' outerwear (Group 6201000000 Coats, jackets, raincoats, mantles, anoraks);
- Women's and girls' outerwear (Group 6202000000 Coats, jackets, raincoats, mantles, anoraks, jackets, including ski jackets);
- Men's and boys' shirts (Group 6205000000)

Textile apparel Export statistics is mainly contributed by the outputs produced in Ukraine within tolling contracts, which on various estimates make up to 95% of textile apparel export from Ukraine.

The biggest supplies are to Germany (40%), followed by France, Poland, Italy, the Netherlands, etc.

Diagram 20: Export of textile apparel by countries, %



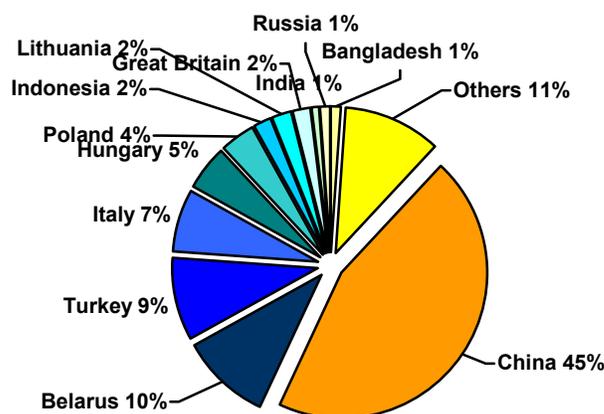
The main types of exported apparel outputs traditionally are: women's suits and skirts, men's suits and pants, women's coats and jackets.

Geographical structure of external trade for knitwear apparel differs from that for textile apparel. Also for knitwear segment China is a leading supplier (45%), followed by Belarus (10%), Turkey (%), Italy (9%), etc.

Share of imported knitwear on Ukrainian market exceeds 90%, which is higher than that of textile apparel (85%).

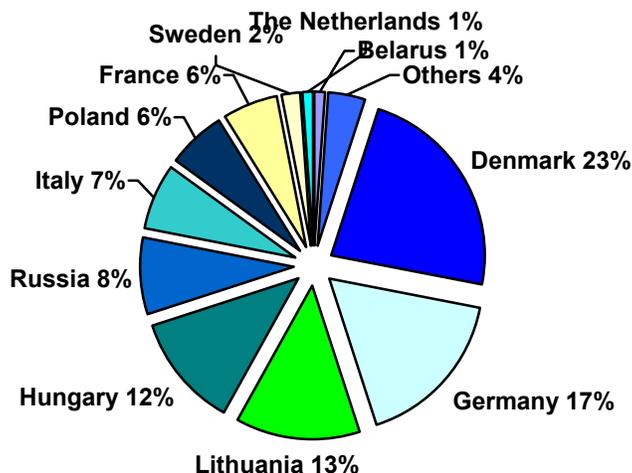
Like the textile apparel import, the knitwear import is represented by all types of apparel. Main types of imported knitwear traditionally are: tights, stockings, socks, long socks; sweaters and pullovers; polo and tank tops.

Diagram 21: Import of knitwear by countries, %



As in case for textile apparel, export statistics for knitwear include also the outputs produced in Ukraine within tolling contracts, which on various estimates make up over 90% of all knitwear export from Ukraine.

Diagram 22: Export of knitwear by countries, %



To main types of knitwear apparel exported during last years traditionally belong: polo, tank tops and other underwear; sweaters and pullovers; women's suits and skirts; shirts and women's blouses.

Recent Apparel Ex-Imp Indicators:

In 2008 the foreign trade statistics for majority of apparel commodities showed positive dynamics, indicating growth for both import and export as compared to 2007, in particular, more than 2,5 times increase in import of textile apparel, 2 times for knitted wear import, etc. As for export, the growth level is much lower in 2008, being only 100,7 % for textiles and 128% for leg wear and almost 6% less of knitwear in 2008 (see the below Table).

In total the officially registered apparel import reached 810 million USD in 2008 exceeding almost 2 times the value of apparel imported in 2007 (347 million USD).

The foreign trade balance in 2008 was 115, 6 million USD in favour of import.

Table 9: Apparel Ex-Imp in 2007/2008

Commodity	Import, in thous. USD			Export, in thous. USD		
	2007	2008	2008/2007, %	2007	2008	2008/2007, %
Fur clothes	8 451	15 266	180,6	927	863	93,1
Knitwear	131 274	274 335	209,0	126 310	119 184	94,4
Footwear	35 594	69 475	195,2	7 238	9 294	128,4
Textile apparel	171 387	451 892	263,7	562 066	565 970	100,7
Total:	346706	810968	212,1%*	690041	695311	104,1%*

Ukrlegprom/ Customs Statistics

Downsizing of customers purchasing capacity and devaluation of UAH in 2009 were the main factors to reduce the apparel import almost by half compared to previous year, especially for fur apparel (13,8%), for knitwear and textiles by 59,3% and 50% correspondingly

Export statistics in general also showed considerable reduction, which however was not as acute as for downsizing of imported commodities, being 72,3% for textiles and 77,6% for knitwear. The growth of export was registered only for leg wear commodities, making almost 106% for leg wear outputs value exported in 9 months of 2008, in total export value of 439 mln USD, which on average was 30% less in value than over the same period of previous year.

Table 10: Apparel Ex-Im in January-October of 2009 vs. same period of 2008

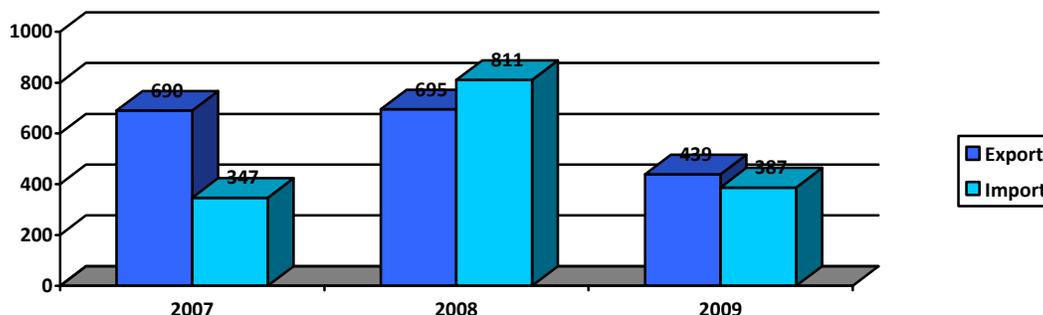
Commodity	Import, in thous. USD			Export, in thous. USD		
	2008	2009	2009 /2008 %	2008	2009	2009 /2008 %
Fur clothes	13 164	1 820	13,8	863	547	63,4
Knitwear	231 946	137 556	59,3	101 028	78 350	77,6
Leg wear	56 563	48 845	86,4	7 930	8 381	105,7
Textile apparel	396 933	198 625	50,0	485 972	351 320	72,3
Total:	698 606	386 846	52,4*	595 793	438 598	79,7*

Ukrlegprom/ Customs Statistics

The foreign trade balance in 9 months of 2009 was 51, 7 million USD in favour of export, in particular due to apparel export support regulation, temporarily imposed by Ukrainian authorities to support Ukrainian producers (13% tax on imported apparel). The temporary niche opening designed to enhance domestic production is unlikely to become an opportunity for Ukrainian producers, as they won't be in position to replace the mid price segment import within short period, mainly because of limited duration of the imposed import tax regulation (up to max 6 months) and currently lacking credit resources in the country.

The apparel foreign trade dynamics is presented in the below Diagram 23. According to experts, downsizing of foreign trade indicators will remain on the same level as in 2009 also in 2010, showing in best case scenario, first recovery signs in the middle of 2011.

Diagram 23: Apparel Foreign Trade Dynamics in 2007/2008/2009 (in mln USD)



Foreign Trade between Republic of Moldova and Ukraine:

Despite its neighboring location, in Ukrainian Trade Partners' Rating, Republic of Moldova takes the 5th position among former NIS (after Russia, Turkmenistan, Belarus and Kazakhstan) and 23rd place among other countries of the world. According to Customs Office of Republic of Moldova the overall export from Moldova to Ukraine made up 84, 7 mln USD in 9 months of 2009, which is by 53, 3% less than over the same period of 2008.

Like in case for Ukraine, the volume apparel foreign trade of Republic of Moldova in 2009 is characterized by downsizing both for export and import: 77,8% (187 mln USD) and 80,4% (171 mln USD) compared to previous year, especially in foreign trade with former NIS (58% from export in 2008 and 58,4% for import). In fact, in 9 months of 2009, apparel export to former NIS made up 15,6 million USD, while import indicator from NIS – 5,3 million USD, as reported by Custom Service Office of RM.

Apparel foreign trade volumes between Moldova and Ukraine are traditionally inconsiderable in overall foreign trade structure between two countries, especially regarding apparel exports to Ukraine.

In 2009, the total value of apparel officially imported by Ukraine from Moldova hardly reached 16 thousand dollars, contributed mainly by leg wear (11,9 thousand USD), followed by knitwear (2,6 thousand USD), etc.

Ukrainian apparel export to Moldova, in volume and value, considerably exceeds the indicators of import from Moldova, being in total value of 1173, 6 thousand USD in 2009, mainly contributed by knitwear group – 750,2 thous USD, women's wear – 219,5 thous USD and men's wear – 203,9 thous USD. In opinion of some experts the input of illegal trade should be considered in order to configure the real foreign trade turnover between Moldova and Ukraine.

National Legislation for Apparel External Trade and WTO Accession:

In 2000 Ukraine and EU have concluded an Agreement on Textile Trade which provides for gradual liberalization of trade from January 1 of 2001. According to this Agreement, textile apparel trade had not any quantitative restrictions only if the parties introduced double check (when market access is granted upon the parties issue export and import licenses).

In 2004, owing to the efforts of Ukrainian party, and interest of European business in free delivery of Ukrainian textile apparel to EU, the parties have signed the New Agreement between Ukraine and EU on Textile Apparel for 2005-2006, which provided for cancellation of double check regime for 13 categories of textile apparel.

The above Agreement was updated for the period of 2006-2008, stating that after Ukraine's WTO accession the national regulations for apparel trade would be harmonized with WTO agreements and rules. In adherence to above Agreements, since 2001, Ukraine has annually reconsidered its duty rates for textile apparel to bring them in accordance to Schedule of Tariff Commitments of European Community WTO/GATT, by updating the Duty Tariff of Ukraine.

Illegal Apparel Imports:

The main bulk of imported apparel outputs cross the border of Ukraine either illegally or with considerably reduced values and/or volumes declared (e.g. average purchasing price for coats, men suits was declared to be around 3.7 Euro per unit).

In 2007 an average customs value of women's suits imported in Ukraine has decreased from 3,3 USD per item in 2006 to 3,0 USD, men's shirts - from 1,3 to 0,9 USD/item, sweaters - from 2,0 to 1,3 USD/item, genuine leather shoes - from 5,9 to 4,3 USD per pair.

A comparative analysis of data from Derzhkomstat of Ukraine on export-import activities and data from trade-economic missions from exporter-countries on the quantity and value of some commodities indicated the existence of undocumented import by declaration of those goods on customs territory of Ukraine.

Thus, over 9 months of 2007, China itself has exported to Ukraine: 14,3 mln. men's suits in for value of 60,1 mln. USD, and only 3,6 mln. items were declared in value of 9,5 mln. USD; 14,5 mln. pairs of leather shoes in value of 87,0 mln. USD and correspondingly - 7,4 mln. pairs totaling to 27,5 mln. USD.

Second Hand:

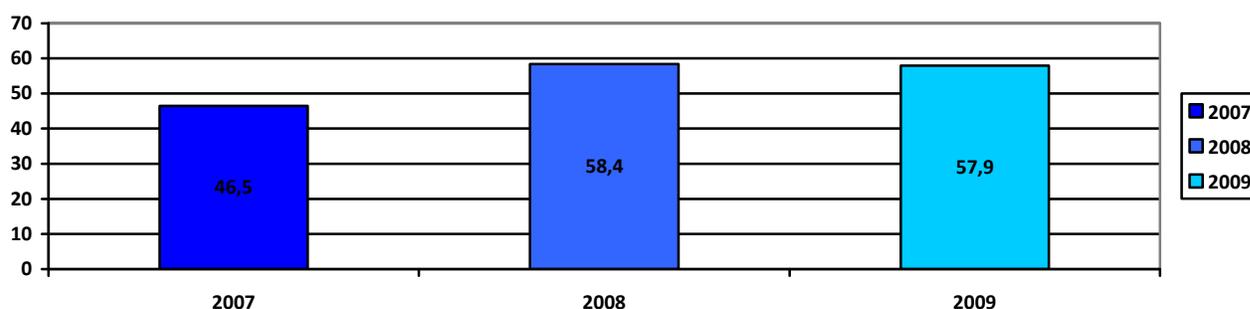
Since mid 90's, volumes of imported second hand apparel to Ukraine has a stable growth tendency. According to official statistics, 78,8 thousand tons of second hand apparel with declared value of 46 mln USD were imported, which equals roughly to 225 mln units,

around 5 units on average per each Ukrainian citizen. In 2008 second hand import made up to 100 000 tons for total value of 58,4 mln USD.

On the background of growing second hand volumes, an average declared price per Kg goes down by approximately 3-5% annually. In opinion of some experts this fact confirms the growing number cases when importers declare the lower prices for purchased lots.

In 9 months of 2009, second hand import volumes were a bit lower, compared to previous period, in spite of some experts' forecasts for extreme growth of second apparel supplies into the country. Some experts consider the second hand import downsizing of 2009 as doubtful, sceptically evaluating official statistic figures. In opinion of this group, not only "less" values but also "less" volumes were declared. The total estimated second hand import, together with smuggled amounts reached roughly 130-140 thousand tons.

Diagram 24: Second Hand Apparel Import to Ukraine



Proposed Measures to Improve the Apparel Foreign Trade Regime:

With the purpose of improving situation at domestic market and prevention of massive import of second hand commodities in Ukraine, the Ministry of Industrial Policy of Ukraine has continually addressed the Cabinet of Ministers of Ukraine, the Ministry of Economy, State Customs Service, Ministry of Health with their concern as to necessity of introduction to imported second hand commodities according to Article 16 of the Law of Ukraine "On provision of sanitary and epidemiological safety of the population" of obligatory state sanitary-epidemiological expertise on conformity to medical safety requirements for humans' health and life that are applied to respective commodities produced in Ukraine.

In 2008, the Ministry of Industrial Policy of Ukraine sent an official letter to prime-minister of Ukraine Mrs. Tymoshenko, containing analyses of Ukrainian apparel market and proposals for improvements on:

- introduction by customs clearance of goods that are imported in Ukraine of obligatory export declaration from the countries of origin of commodities;
- tighten customs clearance by import of light industry goods;

- to set up one entry point in the state border of Ukraine for imported second hand apparel;
- introduction of indicative prices, the level of which would correspond to actual price of respective domestic goods;
- elaboration of measures to counterfight cases of reduced customs value of imported light industry commodities, in particular an issue of Ukraine's joining the international Agreement on Post Shipment Inspection.

All efforts from domestic "sewing lobby" aimed at protection of national market from second hand led to no results till date. In spite the governmental degree from 2008, targeted at blocking second hand apparel import, which is frequently being declared as raw material for processing and recycling, and follow up Resolution of the Cabinet of Ministers from 2009, which has limited the number of state border crossing custom points to 16 for second hand apparel, the amount of imported second hand goods keeps growing from year to year.

9. MARKET ACCESS REQUIREMENTS

Market access requirements are specified in relevant Ukrainian legislation, regulating external economic relations, issues of consumer protection and taxation.

Main regulatory acts are:

- Law of Ukraine "On External Economic Activities"
- Law of Ukraine "On Customs Code";
- Law of Ukraine "On conformity assessment";
- Law of Ukraine "On Consumers Rights Protection",

Foreign trade regime between Republic of Moldova and Ukraine is additionally regulated by Free Trade Agreement between Cabinet of Ministers of Ukraine and Government of Moldova N 2581-IV 2581-15 ratified on 19.05.2005 with update according to Protocol (498_142) from 21.04.2009.

As regulated by this legal act, countries of the agreement do not apply any duties and fees on export and import of apparel commodities.

The above regulations are based on principles of WTO and are being harmonised with relevant legislation of EU.

In more details the requirements and market entry procedures are specified in related instructions, orders, technical regulations, etc. which are available for free access in the full text format on the web links, listed in the Annex 6.

In addition to above mentioned regulations, a potential exporter to Ukraine may need to consider further requirement of a business partner (if any), specified during negotiation process and fixed in the contract between parties.

To main documents necessary for exports from Moldova to Ukraine for all types of commodities refer:

- Copy of the Contract between exporter and importer;
- Cargo Customs Declaration (CCD) in original and its electronic version;
- Declaration of conformity;
- Conformity certificate*;
- State registration of medical products;
- Sanitary-Epidemiological Control Certificate.

Some details on above mentioned documents will be supportive:

Declaration of Conformity Customs clearance of the imported products is performed on the basis of conformity declaration that can be registered in certification body. In case there is no conformity declaration, a conformity certificate (UKRSEPRO) is filed to customs authority.

Cargo Customs Declaration (CCD) standard type of document which could be prepared by any customs broker, if requested; the availability of the above mentioned documents is controlled by CCD;

Conformity certificate*: Products that are imported and sold in Ukraine, according to the Law of Ukraine “On conformity assessment”, should meet the requirements of norms and standards in terms of its safety. Conformity of the products to these norms is supported by Conformity certificate or Certificate of recognition is international certificate issued by authorized certification body, accredited in UkrSEPRO.

State registration of medical products: All types of apparel for medical purposes (e.g. uniform) imported to Ukraine either for application within state or private medical units are subject to obligatory state registration, according to Decree of the Cabinet of Ministers of Ukraine № 1497 from 09-11-200 "On approval of the procedure of state registration of medical equipment and goods".

The Government of Republic of Moldova, by its Decree from 31.12.09 № 922 “On changes in the list of products that are subject to obligatory conformity certification under regulation” has introduced appropriate changes to the Decree of RM Government from 30.12.04 № 1469. The above changes eliminate obligatory conformity certification for number of commodities, including fur clothing, fabrics, textile apparel, pile clothes, coats, suits, blouses and shirts, knitted wear, sports clothing.

The adoption of this regulatory act could be considered as a next step aimed at trade regime liberalization.

Payments on Apparel Commodities Imported to Ukraine. Export Fees and Duties:

As stated above, foreign trade between Ukraine and Republic of Moldova has been granted a free regime status, eliminating relevant duties and fees on export and import. This norm, designed for enhancing foreign trade between two countries, still had not make any considerable impact on increase of apparel export volumes to Ukraine.

The Agreement on Free Trade basically gives obvious advantages compared to foreign trade regime in common case, i.e. if duties and fees are imposed on all products and goods crossing the Ukrainian border. For the sake of comparison, some examples of duties for selected apparel commodities imported to Ukraine on general foreign trade regime are presented in the below Table.

Table 12: Duties for selected commodities in Ukraine

Commodity	Import duty, %
Outerwear (coats, raincoats, jackets, blazers, parkas, etc)	40%
Costumes, skirts, dresses, men's suits, etc.	30%, but not less than 3.00 Euro per piece
Leisure suits / Cotton	10%
Leisure suits / Synthetics	12.00 Euro/per piece
Underwear	12%

Regarding children's apparel, the 50 per cent discount on import duty tariffs is applied according to the Decree of the Cabinet of Ministers of Ukraine № 4-93 from 11-01-1993 "On unified custom tariff of Ukraine".

Updated and full information on relevant duties and fees for various types of apparel is available at www.mdoffice.com.ua

To other cost centres refer:

Value-added tax (VAT) - 20.00 %, paid by the party responsible for custom clearance.

Unified fee, which includes, charges for cargo and vehicle control (trucks with/without trailers and haulers with/without semitrailers - 5 Euro each, heavy vehicles over 40 - 44 ton - 10 Euro each) and

Road fare (trucks with/without trailers and haulers with/without semitrailers - 0,02 Euro/km, heavy vehicles over 40 - 44 ton - 0,1 Euro/km)

Packaging, Marking and Labelling:

General requirements for packaging are defined as obligation of exporters to ensure physical integrity of cargos for transportation on general conditions. Exporters are liable for damage of goods, if occurred due to non-conformance of packaging to general requirements of the contract.

Package type, be it individual for each commodity unit or a "lot" packaging for a bigger amount of units, should be optimal to serve as protection from mechanical damaging, weather factors, non qualified handling/manipulations and theft. Before packaging the apparel outputs should be ironed (formed).

Marking on packaging (each box, container, etc.), besides description of a commodity contained, should be informative on:

- contact details of exporter;
- contact details of importer;
- contract number and date;
- weight and dimensions of the package;
- number of the package and overall amount of packages in consignment;

If necessary, an exporter should mark additional details for an expedition company regarding handling a cargo (e.g. handle with care, fragile, explosive, etc):

Labelling should contain as compulsory minimum information regarding:

- Code of an output (given by a producer);
- Apparel name;
- Size;
- Fabric and its fibres' content;
- Care instructions (usually on a separate label)

Additionally, on the same or supplementary tags, labelling may provide information on producer's name, company's logo, contact information, care instructions, quality grade, production date and other information which could be useful for a consumer.

The above information, in full or partially, may be duplicated by a label with digital code.

Apart from legislative/compulsory requirements to Packaging, Marking and Labelling, an importer may insist on additional or specific requirements, which, if agreed should be documented in appropriate chapter of the Agreement between parties.

System of eco labelling for apparel is still not officially imposed in Ukraine, although certain steps towards introduction of this standard have already been made, in particular recently adopted DSTU ISO - 4239:2003, aimed at regulation of main hygienic requirements for textile and leather goods.

This standard alone, in spite its conformity to international norms like Eco-Tex Standard 100 and Eco-Tex Standard 116, is not sufficient for full scale application, as Ukraine is currently lacking the appropriate laboratory facilities and modern express test methods.

Languages for marking and labelling, as well as for customs formalities could be either Ukrainian or those recognized by customs unions, where Ukraine is a member, or any other of main foreign languages widely used. In case, other than above mentioned languages is used, a declarant should provide the translation at own expenses.

10. MAIN CONSTRAINTS AND OPPORTUNITIES FOR EXPORT TO UKRAINE

Today, the opportunities for Moldavian apparel producers to export to Ukraine are rather low, mainly because of similarity of the situation within apparel sectors of Ukraine and Republic of Moldova, which, in fact, is an overall constraint for the development of external trade between two countries. The similarities are obvious in terms of absence of efficient strategy for sector development, efficient export promotion, low level of modern marketing knowledge and sales skills, lacking financial resources, comparatively high production costs, absence of internationally recognized brands and limited design segment, capable to immediately react on consumers' demand and fashion trends.

However, a few directions could be considered as opportunities for entering Ukrainian apparel market, in particular:

- Moldavian producers could find the niche in replacing some types of apparel imported to Ukraine from Asian region under condition they could offer an attractive/lower price for similar apparel types and models, same level of quality and volumes, being able to keep similar terms of delivery. Concluding from import statistics regarding apparel supplies to Ukraine from countries the following apparel groups (in ranking) have the biggest chance for Moldavian exporters:
 1. Women's and girls' wear (Group 6204000000: Suits, jackets, twin sets, dresses, skirts, pant skirts, pants, breeches and briefs);
 2. Men's and boys' wear: (Group 6203000000: Suits, twin sets, jackets, pants, jumpsuits, briefs and breeches);
 3. Women's and girls' night wear and underwear (Group 6208000000);
 4. Knitwear (Group 6110000000: Sweaters, pullovers, vests and similar items, including thin sweaters);
 5. Men's and boys' outerwear (Group 6201000000 Coats, jackets, raincoats, mantles, anoraks);
 6. Women's and girls' outerwear (Group 6202000000 Coats, jackets, raincoats, mantles, anoraks, jackets, including ski jackets);
 7. Men's and boys' shirts (Group 6205000000)
- Apparel producers should consider serious investments into human resources focusing on highly skilled, experienced and dynamic professionals in international marketing, sales in the first turn.
- Certain category of main Ukrainian apparel importers (*please, see the Annex 2: Main Ukrainian Apparel Importers*) could be addressed to discuss the chances for Moldavian outputs sales on Ukrainian market. The importers, working exclusively with international brands will have the lowest interest for negotiations on this matter;
- Active representation of Moldavian apparel producers in specialized fairs and exhibitions, held in Ukraine will contribute to promotion of Moldavian apparel on Ukrainian market, assist in establishing working relations with relevant Ukrainian stakeholders, which may enhance the cooperation between the parties (*please, see Annex 7: Fairs and Exhibition in Ukraine in 2010*);

- Participation of Moldavian producers in public tenders for apparel procurement announced by various Ukrainian institutions has become an obvious opportunity, since on the requirements of EC, World Bank and WTO, Ukraine has adopted the Law on State Procurement, which allows also foreign companies to participate in public procurement tenders. In addition, Article 18, of the mentioned above Free Trade Agreement assures the free access, transparency, equal rights and duties to both Moldavian and Ukrainian apparel producers participating in public procurement tenders.

In order to monitor this opportunity the interested parties may visit the websites of some central and regional executive bodies, like Ministry of Defense, Ministry of Internal Affairs, Ministry of Education, Regional State Administrations, etc. According to current regulations, web sites of public institutions must contain information on public procurement announcements (*pls. see Annex 5. Public Tender Opportunities*);

- Tolling contracts could be another opportunity to consider, as recent tendencies for increase of production costs in apparel production sector push some of Ukrainian big scale producers to think about production outsourcing. To explore this opportunity, interested producers in Moldova would be advised to make comparison analyses of their own production costs to those in Ukraine (*see Chapter 5: Production Costs*) and if results are feasible contact Ukrainian big scale companies on this issue (*pls. see Annex 2: Main Ukrainian Apparel Producers*, plus, use the web link www.legprom.biz as main source of contact information containing details on main producers, traders, suppliers, designers, etc.

As export opportunity, in the mid/long term perspective, the creation and development of internationally recognized Moldavian apparel brands, will certainly increase the export potential of Moldavian apparel producers.

11. CONCLUSIONS

Summarizing facts, statistics, tendencies and findings from this survey it could be concluded that currently the opportunities for Moldavian apparel producers to export their outputs to Ukraine are rather low, mainly because of similarity of the situation within apparel sectors of Ukraine and Republic of Moldova, which, in fact, is an overall constraint for the development of external trade between two countries.

WTO accession, free foreign trade between Ukraine and Republic of Moldova, together with other measures designed for enhancing foreign trade, made no considerable impact on increase of external trade between two countries.

Both countries urgently need a strong political will and professional approach to develop modern and efficient strategies, with realistic mid term budgetary support framework to implement action plans that arise from strategies and are aimed at enhancing apparel sectors development.

Sector development strategy should be based on realistic and objective evaluation of baseline situation in the sector, applying internationally recognized approaches, principles and methodologies with broad participation of all relevant stakeholder groups in the drafting process.

Meanwhile, Moldavian producers could try to find a niche in replacing some types of apparel imported to Ukraine from Asian region under condition they could offer an attractive/lower price for similar apparel types and models, same level of quality and volumes, being able to keep similar terms of delivery.

Serious investments should be made into human resources focusing on highly skilled, experienced and dynamic professionals in international marketing, sales in the first turn. Budgets should be allocated for participation in specialized fairs and exhibitions for monitoring and participation in public tenders for apparel procurement announced by various Ukrainian institutions.

As export opportunity, in the mid/long term perspective, the creation and development of internationally recognized Moldavian apparel brands, will certainly increase the export potential of Moldavian apparel producers.

We hope that this survey could serve as useful source of information on the way to your business development.

12. LIST OF ANNEXES

Annex 1 Web Resources Used and Recommended for Readers as Useful Links.....	35
Annex 2 Main Ukrainian Apparel Producers.....	36
Annex 3 Production of Apparel by Months in 2009	37
Annex 4 Top 15 Apparel Importers in Ukraine (2009).....	38
Annex 5 Public Tender Opportunities.....	39
Annex 6 Foreign Trade Legislation.....	40
Annex 7 International and National Fairs and Exhibitions in Ukraine for 2010.....	41

Web Resources Used and Recommended for Readers as Useful Links:

www.legprom.biz – main source of contact information containing details on main producers, traders, suppliers, designers, etc.

www.who-is-who.com.ua/katalogfirm/13/137/3115.html

www.ua-region.com/kved/Trd.51.42.1

www.dialogs.org.ua

www.bin.com.ua

www.marketing-ua.com

www.business.dp.ua

www.pro-robotu.com.ua

www.teksika.com

www.sokrat.kiev.ua

www.torgovoedelo.com

www.zerkalo-nedeli.com

www.customs.com.ua

Main Ukrainian Apparel Producers:

Name of the company	Address	Director	Phone, Fax	E-mail	Webpage
Styl OJSC (Rivne styl)	Vul. Soborna, 16 Rivne 33028	Ostapovych Tetyana Mefodiivna	(0362) 22-40-63 (0362) 22-31-67 (0362) 62-32-02	n/a	n/a
Trembita OJSC	Vul. Komarova, 3 Chernivtsi 58018	Stankevych Stella Omelyanivna	(03722) 4-41-03, 4-43-00	n/a	n/a
Volodarka OJSC	Vul. Kotsyubynskogo, 39 Vinnytsya 21000	Kasyanenko Mihailo Ivanovych	(0432) 26-57-06 (0432) 27-06-70	volodarka@volodarka.com	http://www.volodarka.com
Trottola OJSC	Vul. Tobilevycha, 8 Lviv 79018	Ruschinin Yaroslav Ivanovych	(032) 2371435 (032) 2371436	trottola@trottola.lviv.ua	n/a
Donbas CJSC	Vul.Krasnoarmeiskaya, 19 Donetsk 83086	Hvalabova Svitlana Volodymyrivna	062 304-53-75 062 304-53-36	main@donbass-dm.com	www.donbass-dm.com
Kyivska ShF "Zhelan" OJSC	Vul.Zhylyanskaya, 43 Kyiv 01033	Lyashko Larysa	(044) 220-7016 (044) 220-8527	web@zhelan.kiev.ua	http://www.voronin.com.ua
Lvivska tekstilna kompaniya CJSC	Vul. Lemkivska, 15 Lviv 79019	Senysh Galyna Yaroslavivna	(032) 2979122 (0322) 978283	office@lvc.lviv.net	n/a
Podillya CJSC	30-richya Peremohy,16 Vinnytsya 21037	Kovalenko Viktor Ivanovych	(0432) 467246 (0432) 467246	podtex@vinnitsa.com	n/a
ShP "Elegant" OJSC (Melitopol)	Vul. Kirova, 139 Melitopol 72319	Vilshanskaya Nadiya	(0619) 44-04-10 (0619) 44-04-12	elegant2005@list.ru elegant@melitopol.net.ua	n/a
Sofiya OJSC	Bul. Nezalezhnosti 16 Brovary, 07400	Sizova Natalia	(4594) 51572 (4594) 50057	sizova75@mail.ru	http://www.sophia.com.ua

Production of Apparel by Months in 2009

Month	01	02	03	04	05	06	07	08	09	10	11	12
Hosiery, machine or hand-knitted, mln. pairs	2,1	4,6	6,0	5,7	5,6	5,0	2,7	4,6	5,6	5,3	5,1	5,5
Coats, jackets, mantles, raincoats, warm jackets - "parkas" or "anoraks" and similar products for men and boys, ths. pieces	8,9	19,0	28,3	28,2	26,3	40,4	40,8	35,6	51,4	50,2	23,4	21,7
Coats, jackets, mantles, raincoats, warm jackets - "parkas" or "anoraks" and similar products for women and girls, ths. pieces	36,1	45,3	74,7	126,1	167,9	207,2	280,2	262,6	183,2	156,6	124,4	48,8
Suits for men and boys, ths. pieces	51,8	63,6	65,1	44,6	47,2	48,8	46,0	40,0	28,3	27,5	43,2	45,1
Dresses and pinafores for girls and women, ths. pieces	152,0	97,6	73,3	80,5	65,4	95,3	84,2	93,3	83,7	114,1	88,9	115,7
Sweaters, jumpers, pullovers, vests and similar products - hand- or machine-knitted, ths. pieces	79,6	93,1	85,4	108,0	96,3	96,6	133,3	94,8	116,2	96,3	88,4	98,4
Knitted outerwear, ths. pieces	178,1	229,6	258,8	226,5	313,4	296,0	357,3	191,6	187,3	181,5	182,7	237,1
Knitted underwear, ths. pieces	1118,3	1301,7	1385,9	1362,6	1290,1	1212,2	1164,2	781,4	1078,9	1153,6	1128,5	1257,5

[Derzhkomstat Ukraine](#) 20/01/2010

Top 15 Apparel Importers in Ukraine, (2009)

Company	Turnover	Address	CEO
"ADIDAS-UKRAINE"	200 - 300 mln	01021 KYIV L. INSTYTUTSKA, 29 Vul. V.KHVOIKO 15/ 15	SHENKLAND MARTIN BRUCE
LLC "CONTE UKRAINA"	100 - 200 mln	02095 KYIV VUL.MARGANETSKA, 95 VUL.VASILKIVSKA, 30	SILKIN VLADYSLAV OLEKSANDROVYCH
LLC "URA 2008"	100 - 200 mln	04128 KYIV VUL.BERKOVETSKA, 10	FEDCHENKO SERGIY PETROVYCH
LLC "V-IST"	100 - 200 mln	68003 ODESKA OBLAST ILLICHYVSK VUL.TRAVNAYA, 3	GNLICHENKO IGOR BORYSOVYCH
LLC "SPORTMASTER-UKRAINA"	80 - 90 mln	01133 KYIV BUL. LESI UKRAINKY, 28	FRISCHER TETYANA VOLODYMYRIVNA
LLC "GLORIA JEANS"	80 - 90 mln	65031 ODESSA VUL. GRUSHEVSKOGO, 41	ZAHAROV MYKOLA VIKTOROVYCH
LLC "METRO CASH AND CARRY UKRAINE"	80 - 90 mln	02140 KYIV PROSP.PETRA GRYGORENKA, 43	AXEL LUHI
LLC "OLEKSANDRYT"	60 - 70 mln	KYIV BUL.I.LEPSE, 6	LISOVSKYI SERGIY VOLODYMYROVYCH
LLC "ZARA UKRAINA"	50 - 60 mln	03150 KYIV VUL. CHERVONOARMIYSKA, 77A	LUDOVIK OLGA EVGENIVNA
LLC "IMPORT TA EKSPORT"	40 - 50 mln	65101 ODESSA VUL.KOMAROVA, 10, B.4, K.1	BONDAR VALERIY MYKOLAIVYCH
LLC "KALYNA"	40 - 50 mln	80100 LVIVSKA OBLAST CHERVONOGRAD VUL. BOGUNA, 1	CHEMERYS MYKHAILO IVANOVYCH
"MARATEKS"	40 - 50 mln	03134 KYIV VUL. TRUBLAINI, 2, K.21	SHALDYRVAN GEORGIY VOLODYMYROVYCH
LLC "PUMA UKRAINA"	40 - 50 mln	04073 KYIV PROSP. MOSKOVSKYI, 9	AYSVIRT CLARA
LLC "OSTIN"	40 - 50 mln	01133 KYIV BUL.LESI UKRAINKY, 28	SAVELEVA HANNA YURIVNA
LLC "TRIAKS"	40 - 50 mln	08151 Kyivska OBLAST BOYARKA VUL. SERAFYMOVYCHA, 7, K.1	POPOV ANDRIY VOLODYMYROVYCH

Public Tender Opportunities:

Consolidated info on Public Procurement in Ukraine available at:

<http://www.goszakupki.com.ua>
[http://www.goszakupki.com.ua/pp/pp_6\(42\).pdf](http://www.goszakupki.com.ua/pp/pp_6(42).pdf)

Announcements on Professional Competitions:

Updated info could be obtained by using popular search engines: Google, yahoo, yandex, etc.

e.g. Всеукраїнський конкурс «Стиль сучасної школи» 2010

Updated info on public tenders is available on following sites:

Ministry of Education and Science
<http://www.mon.gov.ua/main.php?query=zg>

Ministry of Health Protection
<http://www.moz.gov.ua/ua/i/>

Ministry of Defense
<http://www.mil.gov.ua/index.php?lang=en>

Ministry of Emergency Situations
<http://www.mns.gov.ua/>

Ministry of Internal Affairs
<http://www.mvs.gov.ua/mvs/control>

Official web sites of Regional State Administrations also update info on public tenders for regional and local organizations:

<http://www.kyiv-obl.gov.ua/golovna.php3>
<http://www.donoda.gov.ua/>
<http://www.loda.gov.ua/>

Foreign Trade Legislation:

- **Угода про вільну торгівлю між Кабінетом Міністрів України і Урядом Республіки Молдова/Bilateral Free Trade Agreement Between Republic of Moldova and Ukraine** (ratified by the Law N 2581-IV (2581-15) from 19.05.2005)
http://www.ukrexport.gov.ua/ukr/ugodi_z_ukrain/mol/2116.html
http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=498_073
- Закон України **“Про Єдиний митний тариф”**/ The Law of Ukraine "On Unified Customs Tariff" (from February 5, 1992 №2097-XII)
<http://www.dinai.com/Docs/Expert/wzku2097.d92.htm>
- Закон України **“Про Митний тариф України”** / The Law of Ukraine "On Unified Customs Tariff of Ukraine" (from April 5, 2001 №2371-III)
<http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=2371-14>
- Декрет Кабінету Міністрів України **„Про Єдиний митний тариф України”**/ The Decree of the Cabinet of Ministers of Ukraine "On Unified Customs Tariff of Ukraine" (from 11.02.93 №4-93)
<http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=4-93>
- Митний кодекс України/ Customs code of Ukraine (from 11.07.02 № 92 - IV).
<http://expeditor.com.ua/zakon/pub/12>
- Decree of the Cabinet of Ministers of Ukraine **"On approval of the procedure of state registration of medical equipment and goods"** (№ 1497 from 09-11-2009)
http://search.ligazakon.ua/l_doc2.nsf/link1/KP041497.html
- Decree of Government of Republic of Moldova: **“On changes in the list of products that are subject to obligatory conformity certification in regulated sphere”** from 31.12.09 № 922
<http://gov.gov.md/>

**International and National Fairs and Exhibitions in Ukraine for 2010:
Fashion, Style, Apparel, Leather and Furs**

Name	Country	City	Date
Vesenniy Siluet	Ukraine	Vinnitsa	24.03 - 27.03.10
BABY Expo	Ukraine	Kyiv	30.03 - 02.04.10
Ukrainskaya moda (vesna) - 2010	Ukraine	Vinnitsa	21.04 - 24.04.10
Detskyi mir. Kanikyli	Ukraine	Zaporozhye	27.05 - 30.05.10
Stil'. Leto - 2010	Ukraine	Vinnitsa	02.06 - 05.06.10
Letniy kaleidoskop - 2010	Ukraine	Vinnitsa	16.06 - 19.06.10
Mir molodezhi i detstva	Ukraine	Vinnitsa	26.08 - 29.08.10
Odezhda. Obuv. Tekstil	Ukraine	Vinnitsa	08.09 - 11.09.10
Osenniy vernisazh	Ukraine	Vinnitsa	29.09 - 02.10.10
Ukrainskaya moda	Ukraine	Vinnitsa	20.10 - 23.10.10
Zimnie obnovki	Ukraine	Vinnitsa	24.11 - 27.11.10
Novogodnyaya yarmarka	Ukraine	Vinnitsa	22.12 - 25.12.10
Kyiv Fashion – 2010	Ukraine	Kyiv	14.09 - 17.09.10
Styl ta krasa	Ukraine	Odessa	n/a
Dzerkalo mody - 2010.	Ukraine	Dnipropetrovsk	25.03-27.03.10

Dzerkalo mody - 2010.	Ukraine	Lviv	10.06 - 12.06.10
Dzerkalo mody - 2010.	Ukraine	Donetsk	28.03 - 30.03.10
Dzerkalo mody - 2010.	Ukraine	Kharkiv	25.11 - 27.11.10

Web resources to obtain full and updated info on exhibitions:

www.legprom.biz

<http://ukrexport.gov.ua>

http://www.expometeor.com/about_1_rus

<http://ukrexpo.biz/>

<http://expo.aviso.ua/>
