

Ukraine Country Commercial Guide FY 2004

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Provide overviews for doing business in Ukraine with information on market conditions, best export prospects, financing, finding distributors, and legal and cultural issues.

NOTE:

This information has been compiled as a source of information for American business representatives currently working in Ukraine, or U.S. firms interested in developing new business opportunities in this market. Company listings should not be seen as an official U.S. Government endorsement of any particular company or its services. Individuals requiring business services in Ukraine are urged to exercise caution in selecting a company best suited to meet their individual needs.

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Chapter 1: Executive Summary

Ukraine is an emerging market at the crossroads of Eastern Europe, Russia, Central Asia, and the Middle East and holds great potential as a new market for U.S. trade and investment. Despite this promise, investment obstacles and a very low foreign direct investment rate continue to exist. Ukraine's resources and economic strengths include very rich agricultural land, a strong scientific establishment, an educated and skilled workforce, and significant coal and moderate oil and gas reserves. Ukraine has achieved significant progress, particularly in the last few years. However, prerequisites for sustained economic growth, such as improvements in rule of law and corporate governance, remain incomplete. Until these basic weaknesses are corrected, and an independent judiciary is established to support and protect them, Ukraine's economic development is likely to lag behind its eastern European neighbors and be unable to attract the volume of foreign or domestic investment that the country needs to raise living standards.

After suffering a decade of annual economic declines, Ukraine's economy grew 6% percent in 2000, 9% percent in 2001, and over 4% in 2002. A 7% increase in the first part of 2003 is expected to slow due partly to severe weather-related losses in agriculture. Ukraine's GDP for 2002 totaled US\$ 40.4 billion and is expected to grow about 4.5% in 2003. In 2002, exports totaled US\$ 22.3 billion and imports were US\$ 18.5 billion, providing a trade surplus. Inflation averaged a low 0.8 % in 2002. The national currency, the hryvnia, has remained stable in the last few years, and even appreciated slightly in 2002 and 2003, fueled in part by the

downturn of the dollar in relation to the euro along with increased demand for money due to economic growth. Ukraine's external economic situation has been stable due to its trade surplus and growth in foreign currency reserves, reaching over US\$6 billion at present. Total domestic and foreign debt equals US\$ 14.2 billion, or 35% of GDP.

In 2002, Ukraine received only US\$ 531 million in total foreign direct investment (FDI), and a mere US\$ 5.6 billion since independence, a modest sum when compared to Poland which was received \$50 billion in FDI during the same period. During this time, U.S. FDI has reached almost US\$1 billion and is the largest single source of FDI in Ukraine. Despite some progress in deregulation, domestic and foreign investors continued to be discouraged by a burdensome array of tax, customs and certification requirements, as well as by corruption, the lack of effective corporate governance, and political uncertainty. Some progress has been made on taxes when the government approved a flat 13% personal income tax rate beginning next year and a corporate tax rate reduction from 30% to 25%. But the value-added tax rate reduction from 20% to 17% approved this year is still the subject of political controversy at present and does not provide an answer to special VAT exemptions or to decrease the large balance of unpaid VAT reimbursements.

Exports, the reduction of capital flight, and growth in oil refining, retail trade, and food processing have been the main factor behind Ukraine's recent economic performance. The economic growth in Russia, Ukraine's main trading partner, has boosted Ukrainian exports. At home, pension and wage arrears have gradually been paid off, lifting consumer spending and confidence. Increased consumer confidence is also reflected in the banking sector where household and business bank accounts are increasing. Business confidence, in general, is good, as evidenced by strong growth in new business registrations, mostly in the small- to medium-enterprise sector. Cash collections and transparency are improving in the energy sector, and new legislation has been enacted to simplify registration of products and the licensing of business activity. Ukraine has also become more attentive to the demands of the Financial Action Task Force on money-laundering issues and to requirements for gaining access to the WTO.

However, the legal structure in Ukraine remains undeveloped. And while the government is attempting to pass new legislation to help improve the independence and professionalism of the judiciary, courts remain very weak and subject to political and other pressures. The legal basis for corporate governance is weak and minority shareholders have almost no legal ability to protect their interests. Allegations of unfair rulings or poor enforcement of decisions in commercial cases are common. Private ownership of land is enshrined in Ukraine's constitution and supported by the Land Code and Mortgage Law was passed in 2003, it will be some time before Ukraine develops a functioning system for mortgaging and selling land. Rules governing privatization need to be applied consistently and with more transparency if Ukraine is to be able to use foreign direct investment to privatize and revitalize a large amount of former state enterprises.

U.S. businesses exporting goods to Ukraine will discover that the country's commercial infrastructure, which is still only partially developed, has matured rapidly over the last two to three years. Logistics and distribution networks have improved dramatically, and western business structures such as franchising, leasing, and licensing are becoming more common.

Although foreigners may find Ukraine's import regime daunting, it is not insurmountable and is comparable to other transitional economies in the region. Importers must pay a series of import taxes, including value-added tax (VAT), duties and fees, and, if applicable, excise taxes. Import duties are often higher for products that are also produced in Ukraine and VAT refunds on exports are very difficult to receive at present. While the number of goods requiring specific import licenses has been cut considerably, a large number of goods are still subject to import licensing. Customs valuations generally conform to world standards and Ukraine is trying to comply with WTO regulations on comprehensive tariffs. There are many other non-tariff barriers to trade, including a range of technical and phytosanitary regulations and inspection procedures. A new Customs Code as well as continuing accession negotiations with the World Trade Organization (WTO) offer hope for easier import procedures and lower tariff and non-tariff barriers in the coming years.

Despite the many hurdles they face, U.S. companies have remained at the top of the list of foreign direct investors in Ukraine and have been active in finding opportunities offered by Ukraine's growing economy. Growth prospects and investment opportunities are particularly strong in IT and telecommunications, food processing and packing, pharmaceuticals, medical equipment, aerospace and airport construction, agricultural equipment sales, energy efficiency, power systems, oil and gas equipment, building materials, automotive parts, The U.S. Embassy's Commercial Section (CS Kiev) promotes stronger relationships between U.S. and Ukrainian producers in these sectors, principally through counseling, support of market expansion activities, outreach participation in local events throughout Ukraine, USA Pavilions at Kiev trade shows, foreign buyer

delegations to major U.S. trade shows, and online website marketing. Ukrainian business delegations to the U.S. are assisted by CS Kiev and by the Consular section on visa reviews and applications. And CS Kiev works closely with the Kiev American Chamber of Commerce on old-to-market company expansion activities.

The U.S. Embassy strongly advises U.S. companies to consider using competent legal counsel before and while doing business in Ukraine, since the country's weak and ever-evolving legal institutions and infrastructure have caused serious problems for foreign companies trying to establish a foothold in the country. Care should also be taken when choosing distribution and marketing partners, and when establishing joint ventures with Ukrainian companies. It is a general rule-of-thumb that unless a company owns 100 percent of its business in Ukraine, shareholder dilution can occur. Dispute settlement in Ukraine can prove difficult, expensive, time-consuming, and ultimately, unfair to investors.

Chapter 2: Economic Trends and Outlook

The government has recently been successful in efforts to achieve macroeconomic stability, but Ukraine still needs structural reforms such as privatization, tax reform, and contract enforcement. For several years, Ukraine has maintained a current account surplus and a fiscal deficit. Until recently, the Government financed fiscal deficits through a combination sales of Treasury bill sales to domestic and foreign entities, loans from the National Bank of Ukraine (NBU), assistance from international financial institutions (IFIs), and accumulation of wage, pension, and energy arrears. However, NBU financing of fiscal deficits is now illegal, and the government is meeting its current wage and pension obligations. and has largely paid off pension arrears.

After a 9.6 percent surge in 2001, economic growth in Ukraine slipped to 4.8 percent in 2002. Early indicators suggest that growth was on the rise in the first half of 2003, despite severe, weather-related losses in the agricultural sector. A 7.1 percent increase in the first four months of 2003 is expected to slow over the course of the year. The GOU maintains its forecast for 2003 GDP growth at 4.7 percent (though the Ministry of Economy has suggested 6.0 percent), while the IMF proposes a slightly more conservative estimate of 4.5 percent.

Budget Priorities

Ukraine's 2003 budget, approved by Parliament and signed December 26 by President Kuchma, is mostly realistic, yet still problematic. A Cabinet of Ministers - Verkhovna Rada (Parliament) compromise set revenue estimates as reasonable levels, based on sound forecasts of economic growth (4 percent), inflation (5.2 percent) and a stable national currency. Shortfalls in privatization receipts, however, could cause the GOU to step up foreign and domestic borrowing to cover budget deficits, as could ongoing tax collection failures.

The government continues to be in arrears of more than US\$ one billion on value-added tax (VAT) refunds owed to exporters, a major sticking point for international aid agreements. As a result, large loans from the World Bank (PAL I & II) may not materialize, forcing the GOU to take on additional commercial debt. The Ministry of Finance has stopped offsets and barter transactions in budget execution. Almost 100 percent of budget transactions are now in cash (as opposed to 50 percent in 1999).

National security, the fuel and energy complex and agriculture appear to be the favored sectors within the budget, though politicians are quick to point out that the 2003 budget includes new funds for computerization of rural schools and other initiatives in education.

Currency Stability

The budget assumes 2003 GDP growth of four percent, with inflation (CPI) growing by 5.2 percent and the hryvnia/dollar exchange rate averaging 5.48. The exchange rate prediction is probably realistic, as the hryvnia has been relatively stable since the onset of economic growth in 2000. For the first half of 2003 the exchange rate remained around UAH 5.3, essentially at the same level as the same period a year ago. Ukraine has taken several measures to maintain exchange rate stability. Although the National Bank of Ukraine (NBU) lifted most restrictions on currency transactions in 1999 (including lifting prohibition of advance payment on import contracts), enterprises are still obliged to sell 50 percent of their hard currency earnings. It is unclear whether the NBU will issue a resolution removing this requirement, which it continues to use as a measure to maintain exchange rate stability.

Industry

Ukraine's industry suffers from lack of modernization. Sixty percent of industrial equipment is aged or obsolete, and Ukraine's industrial capacity utilization is only 50 percent. In 2002, capital investment rose by about 9 percent to a level that represents 21 percent of GDP. Industrial enterprises financed two-thirds of this capital investment through retained earnings, and only 5 percent through bank loans.

Principal Growth Sectors

A handful of principal growth sectors dominate Ukraine's industrial outlook. These rapidly developing sectors include oil refining, trade, food processing and (until bad weather in 2002/2003) agriculture. These sectors received the bulk of foreign investments. Exports are strong, with Ukraine's current account surplus exceeding three percent of GDP in recent years.

Oil refining, an industrial sector increasingly dominated by Russian firms, led other segments of Ukraine's economy, registering an overall growth rate of 28 percent (ranging from 17 to 34 percent for various grades of gasoline) in 2002. The rapid pace of growth continues this year, with production up by 13 percent January-May. Ukraine's refineries, which process Russian crude oil, increased re-exports of gasoline by 560 percent and diesel fuel by 140 percent last year, mostly to Central Europe. Despite high growth in production volumes, however, refineries tend to report modest profits or losses, and the sector as a whole recorded a loss in 2002. Accurate measurements of profitability in the refining sector, as in metallurgy and other sectors, are extremely difficult, as firms seek to minimize tax burdens by shifting revenues offshore.

Ukraine's farming sector constitutes about 15% of GDP, employs nearly a quarter of the workforce and provides a livelihood for approximately six million private households throughout rural Ukraine. Food processing remained highly competitive in 2002, and grew by 16 percent. Ukraine experienced a banner harvest in 2002, with grain collections reaching 38.8 million metric tons (compared to 39.7 million metric tons in 2001). In recent months, however, severe weather badly damaged the winter wheat crop and spring replanting efforts were foiled by drought. The GOU has lowered its forecast of the 2003 grain harvest to 25-27 metric tons.

The retail sector, including supermarkets, performed well in 2002, growing by 15 percent. More foreign outlets opened in Kiev and other major cities, but nearly one-third of trade still takes place at open-air markets. A strong rise in real incomes led to a home improvement boom, and construction volumes leaped by 25 percent. Higher incomes also stimulated an increase in passenger transportation, and railway traffic increased 8 percent, automobile transport went up 45 percent, and air traffic increased 38 percent. Cargo transport, excluding oil, also grew by 5 to 23 percent, depending on the means of transport.

Chapter 3: Political Environment

A. Nature of Bilateral Relationship with the U.S.

A stable, independent, democratic, and market-oriented Ukraine that is fully integrated into the Euro-Atlantic community is in the U.S. national interest. The United States unreservedly supports Ukraine's independence, sovereignty, and territorial integrity and is providing substantial technical assistance to help Ukraine make the changes necessary to solidify a democratic society based on rule-of-law, to reform the economy, and to integrate with the world economic system. Bilateral relations were tested in late 2002, after it became known that President Kuchma authorized the sale of military equipment to Iraq. A subsequent review by the U.S. Government of its policy towards Ukraine reconfirmed key U.S. goals to support a democratic, market-oriented Ukraine that is integrated with the Euro-Atlantic Community. The U.S. opened prospects for cooperation on specific issues in order to create concrete examples of successes that can lead to further cooperation. In the spring of 2003, the Ukrainian Government, as a member of the Coalition of the Willing, sent a Nuclear, Biological and Chemical (NBC) remediation battalion to Kuwait in advance of the Iraq conflict, and committed to deploying three battalions and a brigade headquarters as part of the stabilization forces in post-war Iraq. There has also been progress on improving Ukraine's anti-money laundering regime and strengthening export controls. These practical steps have improved in the bilateral relationship. For 2003-2004, a key factor affecting Ukraine's relations with the U.S. and international community will be the conduct of presidential elections in October 2004.

Starting in late 1993, the United States and Ukraine began to develop closer economic and commercial ties.

The U.S. pursued broad engagement with Ukraine across all fields and at all levels. The U.S. economic assistance program for Ukraine became one of the largest American aid programs in the world after 1994. Funds granted through the Nunn-Lugar Cooperative Threat Reduction Program, targeted to assist in the elimination of nuclear weapon systems and infrastructure in Ukraine, supported efforts to build an export control system and protect against proliferation.

The two countries maintain regular working contacts and programs in trade, investment and economic reform; foreign policy; defense reform and nonproliferation; and law enforcement. Both sides have paid special attention to improving the foreign investment climate in Ukraine, addressing specific business disputes and removing obstacles to the development of new business ventures.

B. Major Political Issues Affecting the Business Climate

Ukraine's progress toward developing a democratic state based on the rule of law has been unsteady. Ukraine's first post-Soviet Constitution did not definitively resolve the formal division of powers among the three branches of government. The Ukrainian parliament (Verkhovna Rada) passed a new Constitution on June 28, 1996. The Constitution recognizes the right to private ownership of land and property, strengthens provisions on the rule-of-law, and provides for a more independent judiciary, promising more effective legal protection for investors. Additionally, it has codified fundamental rights of free speech, freedom of the press and assembly, and freedom of religion for all Ukrainians.

The principles expressed in the Constitution, while laying the groundwork for market reforms, have not yet been fully put into practice. Lack of legislation in many areas of economic activity, as well as the absence of a reliable system to enforce existing legislation, are obstacles to achieving an investment climate that will attract substantial foreign investment. Questions regarding land purchase by foreigners, privatization conditions, and taxation reform remain untested.

Corruption and crime inhibit legitimate business activity and foreign investment in Ukraine. There is a broad understanding of these problems but translating that consensus into law is one of the most important challenges facing the Ukrainian political system today. Ensuring that these laws are effectively executed is a considerable challenge.

C. Political System, Election Schedule, Orientation of Major Political Parties

Elections to Ukraine's unicameral parliament, known as the Verkhovna Rada, were most recently held on March 31, 2002. The Verkhovna Rada has 450 seats and deputies are elected to four-year terms. Currently, half of the Rada's seats are elected in single-mandate districts and represent a territorial constituency. The other half is elected proportionally from political party lists. In the 2002 elections, the pro-reform "Our Ukraine" bloc, led by former Prime Minister Viktor Yushchenko, gained the largest share of the party list vote, with over 24 percent. The pro-Presidential for United Ukraine bloc did better in the single-mandate districts. For United Ukraine formed the largest faction in the new Rada, but after electing its leader, Volodymyr Lytvyn, as Speaker, this bloc broke into eight individual factions in June 2002. Together with the pro-Presidential Social Democratic Party of Ukraine (united) (SDPU(u)), these factions formed an official majority in the fall of 2002. Because the majority is slim, practice has shown that support from at least part of the opposition is usually necessary to pass legislation.

The political center is dominated by pro-presidential parties controlled by "oligarchs". These parties include the SPDU(u), Regions of Ukraine and Labor Ukraine. Other pro-presidential groups in the center include the National Democratic Party (NDP), the Agrarians and several factions not based on specific parties. These pro-Presidential factions constitute the majority in parliament. Four factions, ranging from the moderate right to the left of the political spectrum, form the opposition. On the right are a number of moderate nationalist parties including Rukh, the Ukrainian People's Party and Reforms and Order, all of whom are now part of the "Our Ukraine" faction, led by Viktor Yushchenko. The centrist Solidarity party is also a member of the "Our Ukraine" faction. Another group consisting of non-leftist opponents of President Kuchma has united into the Tymoshenko Bloc, led by Yushchenko's former Deputy Prime Minister, Yulia Tymoshenko. On the left are the Communists (the second largest faction in parliament) and the Socialists; both parties are in the opposition.

The prime minister is appointed and dismissed by the president, although his/her appointment is subject to parliamentary approval. As part of a political deal in the fall of 2002, President Kuchma allowed the new parliamentary majority to propose the prime minister, and Donetsk Oblast Governor Viktor Yanukovich was

approved as the new prime minister in November 2002. The prime minister nominates and the president appoints the members of the Cabinets of Ministers.

Ukraine's presidency remains the pre-eminent post in the Ukrainian government and economic and legal reform is primarily dependent on the president's support. The President is the commander-in-chief of the armed forces, and has the power to veto legislation. The parliament may override presidential vetoes by a two-thirds vote. Under the Constitution, Ukrainians hold presidential elections every five years. President Leonid Kuchma was elected to a second and final term in November 1999. Presidential elections are scheduled for October 2004, and all political forces are currently focused on positioning themselves to best advantage in these elections. President Kuchma has proposed major changes to the political system, including the timing of elections, but as of July 2003 the prospects for parliamentary approval of these proposals was uncertain.

Chapter 4: Marketing U.S. Products and Services

Distribution and Sales Channels

The sheer geographic size of Ukraine and its relatively high level of population dispersion (only slightly over 10 percent of Ukraine's population lives in the three largest cities) make establishing a viable, reliable distribution network of great importance. Major U.S. companies such as Coca-Cola, Kraft-Jacobs-Suchard, Mars, PepsiCo, Procter & Gamble, SC Johnson (Johnson Wax and Tambrands), and McDonald's have developed strong sales and service networks in Ukraine, which strengthens their market-share potential. While some of the larger firms use their own internal customs clearance and distribution networks, several smaller companies use freight forwarders for distributing products. In addition, indigenous Ukrainian food manufacturers, such as Svitoch (confectionery), Obolon (brewery), Slavutych (brewery), and Chumak (a Ukrainian-Swedish vegetable cannery), are developing excellent widespread distribution networks.

In exporting directly from the United States to Ukraine, the least expensive and most reliable means of transport is by sea, through 18 marine ports in Ukraine, including Odessa, Illichevsk, and Mariupol. Rail is another cheap, but less reliable, method of shipping products throughout the country. Rail traffic has fallen substantially since Ukrainian independence and minimal backups at crossing points make rail transport an interesting alternative to other forms of transport. Nearly 23,000 kilometers of railway connect Ukraine with Poland, Slovakia, and Hungary, as well as with eastern and northern points of the NIS.

The most popular, efficient, and costly means of transporting goods within Ukraine is by overland truck. Numerous domestic and international freight-forwarders and shipping companies provide service to a number of commercial and diplomatic entities in Ukraine, although price is a factor that U.S. companies should consider. The Ukrainian commercial infrastructure has matured rapidly as of recent years. Western-style distribution networks are developing in the country. During the last several years, a network of chain stores, brand name stores and supermarkets has emerged. They are usually located in the downtown areas of cities and are owned by Ukrainian or foreign private entrepreneurs. Although there is some competition among newly emerged distribution outlets and old-fashioned stores, each caters to the demands of a different group of consumers.

One advantage of dealing with wholesalers is that they can handle the certification and license procedures for imported products. Generally, department stores add 25% to the cost of general consumer products and 5% to audio-video goods and home appliances. The share of domestically produced products in Ukrainian stores varies anywhere from 40% to 60%.

Direct imports of products from foreign producers and distributors is complicated and costly for local department stores. The annual interest rate for purchasing loans is high. Also, a high value-added tax (VAT) on imported products, and excise and customs duties can add an additional 40% to the cost of a product. Establishment of joint ventures with foreign trading companies is an alternative to direct purchasing. A foreign partner is required to supply the equipment and products, and to provide appropriate training for the local staff.

In the absence of reliable credit histories and business background reports, common sense is the main guide to developing a strong distribution and sales channel in Ukraine. U.S. companies can utilize regional distribution networks with contacts throughout the country and, more importantly, these on-the-ground entities can troubleshoot the myriad of obstacles that characterize trade in this emerging and challenging market. The

Commercial Service offers a cost-effective International Partner Search Service, which will screen and identify up to six potential distributors of U.S.-made goods and services.

B. Use of Agents and Distributors; Finding a Partner

As in any foreign country, a local partner or representative can provide valuable insight and commercial intelligence that might otherwise be missed by the U.S. businessperson. A local representative can be especially helpful in newly emerging markets, where a strong business information network has yet to develop. However, before entering into a distributorship or agent agreement, U.S. companies are advised to keep in mind the following points:

- 1) While the extent of information on Ukrainian companies has improved slightly, there is still a significant dearth of background data and credit history on potential Ukrainian distributors. This presents the greatest obstacle to finding reliable, competent distributors. In order to obtain a due diligence report on a potential Ukrainian partner, a U.S. company is advised to contact either a law firm or market entry facilitator (please refer to <http://www.buyusa.gov/ukraine/en/page30.html>)
- 2) To find a potential partner, U.S. companies may also wish to use the U.S. Embassy's Commercial Service programs: the International Partner Search (IPS) and Gold Key Service (GKS).
- 3) The Embassy strongly advises that all U.S. companies consider legal counsel before and while doing business in Ukraine. Given the tenuous commercial environment and weak legal infrastructure, it is essential to obtain solid legal advice in structuring your company's investment. Furthermore, it is important to keep up with the ever-changing laws and regulations. Legal counsel can provide general advice on fluctuations in the commercial environment in Ukraine and prevent disputes from emerging between partners in the future.
- 4) When drafting a contract on partnership with a Ukrainian company, a U.S. investor has to consider including an anti-bribery provision. According to the OECD Convention, which came into force in February 1999, "foreign public officials," including all branches of government, international organizations, state enterprises, political parties and candidates, are subject to anti-bribery prohibitions. In addition, paying unusually high commissions to a distributor, hiring a representative who is a relative of a local government official, other improper advantages and improper accounting practices are subject to criminal and civil liability under anti-bribery legislation of the United States.
- 5) It is typical for Ukrainian companies to seek to establish long-term business relations on consignment or on an equal investment-sharing basis. U.S. exporters are advised to start with small sales and full pre-payment or letter of credit terms. U.S. exporters should be cautious about any balance payments, due to constantly changing rules on local banking procedures.
- 6) Kyiv is not the only hub of trade in Ukraine. Look for distributors that have nationwide capabilities, including the cities of Lviv, Odessa, Zaporizhzhya, Dnipropetrovsk, Donetsk, and Kharkiv. These regions are considered important industrial centers of Ukraine and are densely populated. Demand for various kinds of products in more remote regions is not satisfied.

C. Franchising

Franchising is still nascent in Ukraine. McDonald's has dominated the fast-food sector in the country, but there are also other successful examples of franchising projects to be found, such as Express Personnel Services, Xerox copy centers, Kodak photo developing centers in Kyiv, Baskin Robbins, Dunkin Donuts, and others. Lack of legitimate franchising instruments is considered to be the key factor dissuading other U.S. fast food chains from doing business in Ukraine.

There are several other successful foreign and domestic franchisers:

Spar, a Netherlands-based outfit is one of the world's largest retail food chains. Spar Ukraine was launched by a group of local investors who bought the exclusive license for the Spar brand. Spar Ukraine opened a distribution center in Kyiv early in 2001. That center supplies more than 1,000 retail food stores and restaurants in the Kyiv region and will serve as Spar's warehouse for its stores.

CarRent Ukraine, the Hertz Franchise in Ukraine, and First Lease Ltd. merged their operations. First Lease has bought the franchising license for Hertz. CarRent Ukraine is now responsible for car rental and First Lease

“C for leasing.

A Lviv-based company that owns the trademarks for Pizza Celentano and The Potato House is an example of a successful local franchiser. The company has created a nation-wide chain of “make-your-own-pizza” and potato restaurants, having penetrated even small Ukrainian towns. The number of the company's franchisees in Ukraine, Russia and Poland has grown to 42. The company is currently promoting a new brand of coffeehouses called "Lavazza Point." It intends to open 100 such outlets.

The Ukrainian market offers many opportunities for international franchising. However, as an entrepreneurial activity, franchising encounters the same general barriers that impede the establishment of small and medium sized businesses: expensive banking loans, undeveloped leasing system, and obscure IPR legislation.

D. Direct Marketing

Marketing of consumer goods is usually done through large department stores, specialty or chain stores, and direct retailing. Promotional materials for direct mailing through mail-order houses should be very detailed and in the Ukrainian language. Marketing of industrial goods and commodities is done largely by distributor warehouses, exhibitions, trade shows, and mail catalogs sent (with price lists) to the end-user. Leasing and/or the contribution of equipment to statutory funds of a joint venture can also be effective marketing techniques.

E. Joint Ventures / Licensing

Joint Ventures:

Joint ventures, including those between Ukrainian and Western partners, became popular in Ukraine immediately after the start of the transformation to a market economy. They were viewed as a compromise between the customary form of business, which was oriented towards national ownership, and the necessity to attract foreign investors and learn foreign business practices.

In Ukraine's legislation the term "joint venture" has two meanings:

- 1) Joint ventures are enterprises established primarily to pool assets of different owners and are of mixed-type ownership;
- 2) Joint ventures are based on the common capital of Ukrainian and foreign business entities, as well as on joint management and common distribution of results and risks.

In practice, however, the term is used for new business entities set up by Ukrainian and foreign founders. This may come about as a result of a foreign investor's interest in a Ukrainian enterprise (taking possession of stocks and part of its authorized capital).

The availability of a foreign investor is a prerequisite for the founding and functioning of a joint venture. Definite peculiarities exist with the possible participation of state-owned enterprises in creating joint ventures. According to existing laws in Ukraine, the State Property Fund of Ukraine and agencies to which this fund delegates its authority are entitled to establish joint ventures on behalf of state-owned enterprises.

In terms of formation of joint ventures, Ukrainian law sets no limitations - they are free to be established as limited corporations, stock companies, or other associations. State registration is mandatory when establishing a joint venture. Legal enterprises are entered in the State Register of Enterprises of Ukraine.

A joint venture has all the rights of a legal entity as soon as it has its state registration. Joint ventures may perform business activities of any kind, except for those prohibited by law. Licensing is mandatory for certain kinds of activity (insurance, audit activities, law, veterinary practice, and exploring and exploiting natural resources, etc.).

Licensing

The Law of Ukraine "On Changes in the Law of Ukraine On Entrepreneurship" establishes permitting and licensing provisions and restrictions.

The many government agencies involved in the licensing process sometimes can be a barrier to foreign investment - the typical business has to secure roughly a dozen licenses. According to the law "On Licensing of Certain Kinds of Business Activity", the following Ukrainian agencies are responsible for granting licenses:

Ministry of Agricultural Policy (http://www.minagro.kiev.ua)	- cultivation and processing of narcotic plants for industrial purposes;
Ministry of Internal Affairs (http://www.centrmia.gov.ua)	- manufacture of and trade in firearms and tear-gas guns, munitions, knives, BB air guns with caliber of more than 4.5 millimeter and bullet speed of more than 100 meters per second; - manufacturing of and trade in self-protection means with tear-gas or spray base; - security and guard services;
Ministry of Ecology and Natural Resources Http://www.menr.gov.ua	- Exploration and development of natural resources; - exploration of uranium ores and deposits - certain kinds of waste collection and processing (Listing is determined by the Cabinet of Ministers of Ukraine); - hazardous waste handling and utilization; - aeronautic-spray services; - topographic, geodesic and land -survey services;
Ministry of Economy and European Integration Http://www.me.gov.ua	- arbitration services (property tort, readjustment, liquidation, settlement); - export and import of compact laser disks, CD-ROMs and equipment for their production;
State Department of Intellectual Property (Ministry of Education and Science) http://www.spou.kiev.ua/ http://www.spou.gov.ua http://www.education.gov.ua	- manufacture of compact laser disks, CD-ROMs ;
Ministry of Health of Ukraine http://www.moz.gov.ua	- disinfecting, dissection and deratization services in human facilities; - medical practice; - human blood processing for drugs;
Ministry of Labor and Social Policy http://www.mlsp.kiev.ua	- intermediary services for employment abroad;
Ministry of Finance http://www.minfin.gov.ua	- production of precious metal, precious and semi-precious stone deposits; - processing of precious metals, precious and semi-precious stones ; - manufacturing of and trade in articles from precious metals, precious and semi-precious stones; - publishing of securities or other official stationary ; - precious metal scrap and stones collection and processing; - insurance services; - lottery issue;
State Committee on Building, Architecture and Housing Policy http://www.build.gov.ua	- commercial and residential water supply; - construction and architectural design
State Committee for Water Resources http://www.kmu.gov.ua	- design, engineering, maintenance and construction melioration systems;
State Committee for Land Resources	- land survey and appraisal services;

http://www.kmu.gov.ua	
State Committee for Communication and Informatization http://www.stc.gov.ua	- postal money transfers, shipment of parcels under 30 kg weight, simple and registered letters, postcards - radio-frequency telecommunication services; - telecommunication services (except internal corporate telecommunication services); - maintenance of video-, TV-, radio- broadcast, and wire communication systems within single company territory;
Department for Tourism http://www.tourism.gov.ua	- domestic or tourist or excursion trips;
Ministry of Industrial Policy of Ukraine http://www.industry.gov.ua	- manufacture of hazardous chemicals (Listing is determined by the Cabinet of Ministers of Ukraine); - exploration and development of precious metal, precious and semi-precious stone deposits; - manufacturing of and retail trade in agricultural chemicals; - iron and color metal scrap collection and processing;
National Space Agency http://www.nkau.gov.ua	- development, production, testing, commercial use of missiles and space infrastructure and space satellite equipment;
State Commission on Securities and Stocks http://www.ssmc.gov.ua	- brokerage and trade in securities and stocks;
State Customs Service http://www.customs.gov.ua	- customs broker services;

F. Steps to Establishing an Office

Shares in a Ukrainian company can generally be issued or sold to non-Ukrainian residents without restriction. There is no limitation on the percentage of ownership of a foreign investor in most types of Ukrainian companies. Preferred forms of foreign investment operations in Ukraine are: a joint stock company (JSC), limited liability company (LLC), wholly-owned subsidiary, or a representative office. For regulatory and taxation purposes, with some exceptions, representative offices are treated similarly to independent legal entities. Some industries, including banks and insurance companies, are more heavily regulated, and must be established in compliance with specific requirements. A representative office can carry out marketing, promotional, and other auxiliary and preparatory functions on behalf of the company. The establishment of a wholly owned company in Ukraine would be recommended if the company intends to carry out manufacturing or other significant local commercial activities. There is no prohibition for a foreign legal entity to have both a representative office and to establish a wholly owned subsidiary at the same time.

In choosing between an LLC and JSC, it is generally recommended that an LLC be used since it is easier to manage than a JSC. At least two founding shareholders are necessary to create a JSC. Shares issued by both closed and public JSCs must be registered with the State Commission of Securities and Stock Market. There are two levels of taxation: the JSC is taxed on its profits and the shareholders are then taxed when dividends are distributed.

In a Limited Liability Company, ownership interests are expressed in terms of contractual rights that arise out of the foundation documents. Interests in an LLC are not deemed to be "securities," and therefore, are not subject to registration with the State Commission of Securities and Stock Market. As with a JSC, there are two levels of taxation for an LLC.

Registration:

Registration of representative offices of foreign companies is handled by the Ministry of Economy (MOE) of Ukraine, and is done within 60 days of submission of all required documents and upon payment of a US\$2,500

fee.

For registration of a representative office, the Ukrainian Ministry of Economy and European Integration requests the following documents:

1. Application for registration on a letterhead of a company signed by Head of a company and with seal affixed. Form is free. (Note: *Original of application with a signature of Head of a company attested by notary is submitted.*)

The application must contain:

- Company name;
- Company address;
- Telephone and fax numbers;
- Name of a city, where a representative office is established, and future address;
- If subsidiaries will be opened, cities of their location must be named;
- Number of foreign employees in a representative office;
- Date of establishment of a company;
- Name of a bank and number of account;
- Field of activities of a company;
- Purpose of establishing a representative office and field of activities of the representative office (representation activities only), information on business relations with Ukrainian partners and prospects of cooperation development.

2. Extract from Trade Register of a country of location of an officially registered central management body (office) of a foreign business entity (Note: *This document must be attested by notary*).

3. Certificate of a bank that services the company, containing the number of account. (Note: *Original of bank certificate must be submitted. Notary must attest Signature of a bank employee, which issued certificate,*).

4. Warrant in the name of concrete person for execution of representative functions in the territory of Ukraine, listing the authority of a representative (Note: *Original of warrant with signature of Head of a company attested by notary must be submitted*).

Originals of documents listed in Paragraphs 1,2,3,4 have to be duly legalized in consular offices, representing interests of Ukraine. The documents must be in the Ukrainian language. A seal of an official translator must attest translation. The documents must be submitted to Ministry of Economy and European Integration of Ukraine no later than 6 months after issued in the country of origin. Upon acceptance of registration documents, an applicant will pay a registration fee, amounting to US\$2.500. Within a month of obtaining a registration certificate, a representative office must register with the local tax inspectors.

All business entities with legal entity status (resident or foreign) shall be officially registered by the administrative body of the city, city district, regional councils, Kyiv or Sevastopol district state administrations (hereinafter referred to as official registration authorities) at the place of residence of the given business entity, unless otherwise provided by law.

The following documents should be produced for registration:

- 1) constituent agreement (when there are two or more owners);
- 2) the statute (company charter), if applicable;
- 3) registration card, serving as an application for official registration;
- 4) document certifying payment of the official registration fee;
- 5) certificate of prepayment to the statutory capital fund in the amount required by law (50% of investment capital for a JSC, and 30% for an LLC). If an owner is a foreign legal entity, an extract from the trade register, bank or court register must be produced to certify registration of the investor in the country of origin.

These documents must be duly approved according to the law of the country of origin, translated into Ukrainian and legalized in a consulate of Ukraine. They should also be approved in the Embassy of the corresponding country in Ukraine and legalized in the Ministry of Foreign Affairs of Ukraine.

After registration, the company must be registered with the state tax and statistics authorities, and can appoint a board of directors who open the company's bank accounts.

G. Selling Factors / Techniques

Prior to considering the Ukrainian market, any U.S. company should be aware of two contradictory attitudes deeply ingrained in the mind of Ukrainian customers. The first is an enthusiasm for Western manufactured products (especially consumer electronics, household appliances, cars, and cosmetics) and the second is the belief that some Ukrainian consumer products (especially food and liquor) are of better quality. This is in part due to the flood of imported goods of dubious origin and poor quality — many of which are falsely marketed under well-known brand names, and partially due to the excellent quality of locally produced food products and beverages. An inner conservatism of Ukrainians and a predilection for familiar goods play a decisive role in consumer behavior.

Locally produced promotional advertising that targets Ukrainians is required to expose the average Ukrainian to unfamiliar brand names. Consumer confidence in a particular product is improved by a description, list of ingredients, warranty or maintenance guarantee. Ukrainian consumers are turned off by products with Western brand names that are manufactured in Asia or other former socialist countries (other than Russia and Belarus), or distributed by companies located in these parts of the world. The name of a Ukrainian or Russian distributor and local address on original packaging can increase consumer confidence.

One of the key factors influencing the marketing of U.S. products in Ukraine is the right choice of an agent or distributor. If a U.S. company intends to have a long-term relationship with its Ukrainian partner, it is wise to get to know the business partner and their business as much as possible from the onset. Coordination and agreement regarding sales policies and pricing is absolutely necessary. Local businesses are oriented towards high profitability, which can seriously affect the marketability of U.S. products. U.S. exporters should be aware that their Ukrainian partners have to deal with a number of indirect duties and commercial risks that will influence their pricing policy. Generally speaking, the sales policies of U.S. companies interested in the Ukrainian market should take into account the unique features and challenges of this developing market. Rather than try and apply sales policies used in Western and Central Europe (or even Russia), a flexible and cooperative policy, oriented towards a long-term presence in the market, is much more likely to bring desired results.

Problems have arisen for U.S. companies that operate through their European subsidiaries. In many instances, unfavorable currency exchange rates and higher European taxes and/or duties decrease the price competitiveness of U.S. products. Additionally, working through European subsidiaries is perceived by Ukrainian businesses as an additional layer of bureaucracy and overhead cost. Ideally, a U.S. company interested in conducting a successful business operation in Ukraine should have an in-country representative and an established network of distributors and sellers.

Offering a flexible credit policy is important not only for small-scale Ukrainian companies, but also for multimillion-dollar local firms. Local companies' access to loans and credits is limited by high interest rates and short repayment terms demanded by local banks. Moreover, the Ukrainian tax system has a very negative impact on the working capital of resident companies, reducing their credit resources.

H. Advertising and Trade Promotion

There are over 300 advertising agencies in Ukraine. Television advertising is on the rise and is considered one of the best means of advertising in Ukraine. According to Socis Gallup monitoring, the top four TV channels in terms of advertising are Inter, 1+1, ICTV, and UT-1 (the central state channel). Commercial radio in Ukraine is developing quickly and is also widely used for advertising. Together radio and TV make up about 64% of the national advertising market. Newspaper advertising accounts for another 14%. Outdoor advertising has proven effective, and its popularity is constantly growing. It accounts for 22% of advertising expenditure in Ukraine. Among the outdoor advertising companies in Ukraine, Bigboard (a Czech-Ukrainian joint venture) remains the largest, with a market share of about 30%. Outdoor advertising companies must obtain licenses from local authorities and these are issued for a period from six months to five years. There is an association of outdoor advertising companies in Ukraine that lobbies on behalf of the industry. Among the regions of Ukraine, the largest budgets for advertising are in the Kyiv, Dnipropetrovsk, Odessa, Kharkiv, Donetsk, and Lviv regions. Under most circumstances, advertising in Ukraine has to be in the Ukrainian language. Trademarks registered in a foreign language or alphabets are also permitted. The demand for public relations services in Ukraine is growing. One of the most successful PR companies is the U.S. company TWG/Burson-Marsteller. PR agencies in Ukraine have their own industry-lobbying association. The advertising regulatory authorities are: the State Antimonopoly Committee of Ukraine; the State Committee on Information Policy, TV and Radio Broadcasting; the National Council of Ukraine on Radio and TV

Broadcasting; and the State Committee on Standardization, Metrology and Certification.

I. Product Pricing

Prices in Ukraine typically include a 20% Value Added Tax. High import tariffs, high direct and even higher indirect taxes, combined with the small number of suppliers of Western-made products in the Ukrainian market, keep prices at a high level. Commercial risks associated with permanent fluctuations of USD/EURO exchange rate in 2003-2003 added an overhead cost to goods imported from Europe making direct imports from U.S. more attractive. To date, the Ukrainian market has been flooded with cheap, low-quality goods from Turkey, China, the Middle East, and former Socialist-bloc countries, often sold under well known Western brand names and at prices comparable to a high fashion boutique in a Western European Capital. However, despite the higher prices, there is a growing tendency for Ukrainians to buy quality, Western-made products. As the local economy offers very limited opportunities for long term savings or investments, Ukrainians that have lived through the crash of Soviet monetary system, tend to spend their savings (often meager by Western standards) on expensive clothing, top quality household appliances, jewelry and furniture.

Many Ukrainian customers not familiar with U.S. or Western European markets strongly believe that high prices guarantee high quality. Suppliers of products of dubious origin exploit such beliefs. U.S. exporters trying to develop a successful pricing policy should be aware of the fact that some of their local competitors that claim to be selling exclusive Western products at a European price, are in fact money laundering operations.

The other factor worth been taking into consideration is the availability of after-sale services and customer support. Prices in developed countries reflect the cost of after-sale services and customer support, while in Ukraine this key element is often missing.

When establishing prices, exporters should consider the purchasing power of the average Ukrainian consumer. According to the Ministry of Economics, the average Ukrainian per capita monthly wage is close to \$100. However, the Ukrainian shadow economy and in kind revenues received by families that own land or other agricultural resources, increase these numbers. There is a fast-growing segment of the population whose disposable income is rising due to the increase in entrepreneurial/commercial activities not accounted for in official reports.

When developing pricing policies, U.S. suppliers should also note the regional and age differences among end-users. The demand for Western-made products is far greater among the younger generation, with the sharpest contrasts seen between the under-45 and over-45 age groups. The widest differences are in the purchase of vehicles, personal care products, candy, jewelry, household goods, and electronics. The correlation between education level and product demand is not as evident as in Western economies, because many educated consumers are part of the low-income population.

It is important to note regional variations in demand and price of Western-made consumer goods, although these differences are becoming less pronounced. While the Kyiv area is typically well supplied with various products, remote areas are not. Dnipropetrovsk, Donetsk, Kharkiv, Zaporizhzhya, Odessa and Lviv offer good potential for foreign exporters interested in expanding their operations in Ukraine.

The Cabinet of Ministers of Ukraine has price-setting authority with products, goods, and services in certain sectors. These lists include basic tariffs (e.g. electricity, telecommunications, transportation, utilities), and some crucial products such as sugar, grain, gas, oil etc. Government regulated prices and tariffs may change as a result of changes in production and sale conditions.

J. Sales Service / Customer Support

A key element to succeeding in the Ukrainian market is the establishment of a network of after-sale support centers for goods and equipment. Maintenance centers are especially important for a variety of industries, including household appliances, telecommunications equipment, consumer goods, and vehicles. In February 1999, the Cabinet of Ministers adopted a decree on after-sale service and maintenance of household appliances. According to this legislation, all products have to carry certification of origin, price, after-sale obligations of the manufacturer, rules of use, the manufacturer's address, and information on certification in Ukraine.

In 2001-2002 many local companies that were previously engaged in sales of imported goods, either opened after-sale support divisions, or moved to after-sale support and maintenance business altogether. Major importers started outsourcing after-sale services to other companies on a competitive basis. This service industry is quickly taking shape.

Ukraine still has a long way to go to approach western standards for after-sale services and customer support. Although local market shows solid and steady growth in consumer sales, its absolute size remains too small for many international brand name manufacturers. These companies often postpone developing after-sale services and a customer support network until the market is more developed. As a result, when Ukrainian customers discover that a product labeled with a well known international brand name is not accompanied by after-sale services and customer support, he or she immediately assumes that this product is a counterfeit. On the other hand, educating local customers to western standards for after-sale services and customer support prevents counterfeiting, protects importer's trade mark and IPR, and helps building a strong market demand for such products.

K. Selling to the Government

Government procurements are made through tenders. Information on government procurements is publicized in the official GOU magazine "Visnyk Derzhavnykh Zakupiv" (State Procurement Bulletin) published by the Ministry of Economy of Ukraine. American company representatives in Ukraine can arrange subscription for this magazine (in Ukrainian or in Russian) at the Ministry of Economy at the following contacts:

Tel: (380-44) 293-9415/3296/1166 ; Fax: (380-44) 552-4365E-mail: vdztender@me.gov.ua

Large procurements are also announced on the Internet web page of the Ministry of Economy at www.me.gov.ua.

Companies should also track tender announcements of the World Bank and the European Bank for Reconstruction and Development (EBRD), which finance numerous projects to assist Ukraine in its transition to a market economy.

L. Need for a Local Attorney

The U.S. Embassy strongly advises that all U.S. companies consider legal counsel before and during business practice in Ukraine. Given the tenuous commercial environment and the weak legal infrastructure, it is essential to obtain solid legal advice in structuring your company's investment. Furthermore, it is of utmost importance to remain up-to-date on the ever-changing laws and regulations. Legal counsel can effectively provide general advice on the fluid commercial environment in Ukraine.

The Commercial Service, in its popular "Directory of Business Contacts," maintains a list of American and Ukrainian lawyers that are involved in international practice. The American Bar Association's Central and East European Law Initiative (Tel/Fax: [380-44] 462-0974 / 0975) is also a useful source of lawyers and information about legal proceedings in Ukraine.

M. Performing Due Diligence / Checking Bona Fides of Banks / Agents / Customers

Given the difficulties of doing business in Ukraine, it is advisable for a U.S. company to perform its own feasibility study before starting a project in Ukraine. Numerous opportunities in Ukraine carry a significant level of risk. The first step in undertaking a project in Ukraine is knowledge of costs, risks, and returns.. Most of the risks are legal, permission related, and practical. What constitutes conforming to code in the U.S. does not necessarily mean the same in Ukraine. The nuances and various possible interpretations of Ukrainian laws, rules, and regulations make it almost impossible for one person to understand all possible ramifications. In order for a contract to be truly enforceable in Ukraine one should have a lawyer, an accountant, and an interpreter even if the private investor is fluent in Ukrainian or Russian.

Official State statistics are often unreliable, and understanding market dynamics in Ukraine comes down to informed opinion. Local surveys and "experts" should be treated with some caution, as their objectivity can be blurred by conflicts of interest.

There is no viable system for checking the financial status of a Ukrainian partner, and information on bona fides of potential Ukrainian partners should be treated with caution. It is not a practice in Ukraine for banks to provide information on the financial status of their clients, and there is no nationwide service for registering enterprises of doubtful solvency.

The due diligence process performed by Dun&Bradstreet representatives in Ukraine, or teams headed by western accounting/law firms and investment advisors with a permanent local presence, will give investors a better understanding of the target company and will help in the design of an appropriate exit strategy.

Never put your fate in the hands of the unpredictable Ukrainian courts. Recent court decisions, rulings, and regulations have shown that unless contracts in Ukraine contain very specific detail they may be totally unenforceable. The letter of a contract is more important than its intent, which, like "industry standards" or other such concepts is not readily recognized in Ukraine. Only the written word and the specific subject, as defined by law, have meaning.

In entering into a business partnership with the State, it is highly recommended that you ensure the State has put all of its decision-making powers in the hands of an independent manager.

Chapter 5: Leading Sectors for U.S. Exports and Investment

A. Best Prospects for Non-Agricultural Goods and Services

The following is a list of FCS, Kyiv commercial specialists and the major sectors of their responsibilities:

Ruben Beliaev	Information Technologies (Telecommunications, Computers)
Yuriy Prikhodko	Aerospace, Transportation, Travel & Tourism, Consumer Goods
Victoria Sergeeva	Energy, Oil & Gas
Olena Stephanska	Banking & Finance, Health Care, Environmental Technologies
Olexandr Zavhorodniy	Automotive, Heavy Industry, Chemicals, Building & Construction
Irina Dushnik	Agricultural Machinery & Equipment, Agricultural Chemicals, Food Processing

All figures below are provided in \$ millions, unless otherwise noted.
Exchange rates (effective June 30 each year):

1997	\$1.00 = UAH 1.86
1998	\$1.00 = UAH 2.06
1999	\$1.00 = UAH 3.95
2000	\$1.00 = UAH 5.44
2001	\$1.00 = UAH 5.38

1. Telecommunications (TEL)

Telecommunications and information technology are important infrastructure sectors for Ukraine. The revival of Ukrainian economy after 2000, as well as foreign and domestic investments in telecommunications made over the last 10 years, have brought marked changes in the Ukrainian telecom industry, particularly in mobile wireless and internet. Obsolete analog networks are circumvented by a growing number of wireless mobile and fixed "overlay" networks. The industry's share in the Ukrainian GDP has reached 4.5%. In 2002 telecom industry revenues grew 20% and reached \$1.79 billion. Average level of teledensity reached 22.3% (Source: Kyiv Weekly, April 18, 2003). Long distance and international calls account for 43% of total industry revenues. Two leading wire-line operators Utel and Ukrtelecom process 95% of long distance and international calls. Local loop generates only 25% of industry revenues. Private wireline telecom providers are slowly overcoming existing Ukrtelecom's monopoly, although their market share is still too small to trigger major changes that would reshape the market.

Delay with privatization of Ukrtelecom and ongoing disputes between this company, telecom authorities and lobbyists on one side and private telecom operators on the other side seriously hurt the development of the whole telecom industry.

MOBILE COMMUNICATIONS

Five Ukrainian operators - UMC, Kyivstar GSM, Golden Telecom GSM, DCC, and Wellcom - offer wireless mobile services in Ukraine in the following standards: GSM900/1800 (UMC, Kyivstar GSM, Wellcom, DCC), DCS 1800 (Golden Telecom GSM), and D-AMPS (DCC). Late 2002 and early 2003 brought significant changes in the list of shareholders of the Ukrainian mobile telecommunications. Four out of five Ukrainian mobile operators changed their shareholders.

Wireless mobile communications (MC) is the most active subsector of the telecom industry in Ukraine. MC revenues grew 32.4% in 2002 amounting to UAH 2.67 billion (\$500 million). These revenues represent 28% of the total telecom industry revenues. This successful financial performance ranks MC as the second communications subsector in terms of revenue after the long-distance and international wireline communications that historically led other industry subsectors. The number of MC customers grew 64.2% from 2.214 million to 3.635 million (compare to 8-10 million customers of wireline telecom services)(Source: www.dn.kiev.ua). Although the growth of customer base in 2002 was substantial, it was far below 140% annual growth rates demonstrated in 2000-2001. The market penetration for MC is slightly above 7%.

MC users, who account for only 30% of the national customer base for telecom services, represent the most affluent part of the population and represent a growing market base not only for MC providers, but also for a number of peripheral businesses servicing the MC industry. It took only three years for this new service industry to develop in Ukraine. This rapid growth represents new business opportunities for U.S. companies specializing in products and services for MC users.

INTERNET AND DATA TRANSFER

Internet services are one of the leading albeit small subsectors of the Ukrainian telecom industry. As internet service provider's (ISP) business is not subject to licensing, the only credible source of information on this market sector is the size of data traffic processed by Ukrainian telecom networks, especially since internet services account for most of data transfer in Ukraine.

Analysis of industry performance data in 2002, 2001 and a comparison with industry revenues in 2000 reveals that although the growth in the data transfer and internet has slowed in 2001, year 2002 showed increased growth. This is most likely due to the fact that customer base for internet services, which was earlier limited to a small number of business professionals and a big but low revenue audience of ad hoc users, has expanded at the expense of the growing number and activity of large and medium size corporate customers, and the general upgrade of the national IT infrastructure. Further increase of the internet customer base is limited by several factors, and the poor condition of the Ukrainian local loop plays a predominant role.

GROWTH OF INTERNET AND DATA TRANSFER IN 2000-2003 (\$1/UAH 5.4)

YEAR	ANNUAL GROWTH I	YEAR	ANNUAL GROWTH	YEAR	ANNUAL GROWTH
2000		2001		2002	
UAH 151 million	76 %	UAH 220 million	46 %	UAH 360 million*	63.6 %*

*Source for 2002 statistics is Byznes Magazine, No. 5, 2003

ISP services and data transfer account for 3.36 % of total telecom industry revenues. There are approximately 280 ISP operators in Ukraine, however, 80 % of industry revenues are generated by 15 major operators.

2. Energy Efficiency (EE)

World Bank-financed Kiev Public Building Energy Efficiency Project is currently under implementation, with on-going open tenders for procurement of necessary equipment and technology. Responsible agency - Kyiv City State Administration, total project cost "C about US\$ 30 million, including US\$ 18 million WB loan. Project objectives include improving energy efficiency in schools, hospitals, and administrative and public buildings of

Kyiv City.

Best prospects for U.S. companies include: efficient gas turbines and turbo-expander units; hydraulic turbines; central heating boilers and advanced boiler technologies; energy conservation in the heat-exchange systems and furnaces; modern digital control systems; gas and heat metering systems for industrial, domestic and commercial use; monitoring devices and card payment systems to measure and regulate electricity use; rehabilitation and replacement of compressors for the gas transmission systems; efficient drilling machinery, particularly drilling bits; coal quality control equipment; and innovative insulation.

3. Oil and Gas Field Machinery (OGM)

There are three petroliferous provinces in Ukraine: in the west (the Carpathian region), in the east (the Dnipro-Donetsk region), and in the south (the Black Sea and the Crimea region). Ukraine's hydrocarbon resources are estimated at 7-8 billion tons of fuel equivalent. Average annual oil and gas production amounts to 18 billion cubic meters of natural gas and 4 million tons of crude oil, and covers 21-24 % of the demand for natural gas and 10-12 % of the demand for crude oil in Ukraine. Ukraine does not have local manufacturing of pumping equipment capable of producing below 6,000 feet, even though many of the fields on-shore are in depths of 10,000 to 15,000 feet. Local production of drilling machinery is limited. Stimulation technologies such as hydraulic fracturing and acid stimulation are not available. Three-D seismic has not been used on-shore, and drilling equipment is antiquated and has difficulties drilling below 15,000 feet. Ukraine has substantial offshore natural gas and crude oil reserves, but does not have technology to drill underwater deeper than 70-80 meters (200 feet). Even though Ukraine has the second largest refinery capacity in the NIS, with six crude oil refineries of about 53 million tons capacity potential per year, the utilization is still under 50%. Private shareholders of Ukrainian refineries are currently investing in upgrading the capacities to increase utilization.

Major U.S. companies selling to the local oil & gas market include: GE International (GE Power Controls, GE/Nuovo Pignone), Honeywell, Emerson Process Management "C automation and control systems; Caterpillar, Baker Hughes (Baker Oil Tools, Hughes Christensen), FMC, Stewart & Stewenson, Smith Bits, Weatherford, Clearwater Inc. "C equipment and technology for oil & gas production and stimulation, Exxon-Mobil "C motor oils and lubricants.

Best sales prospects for U.S. companies include: technologies for gas production and storage, for gas-transport infrastructure, in particular pipeline construction equipment, compressors and pumps for pipeline applications; gas transmission systems; gas pipeline leak control systems; gas pipe fittings and applications; welding machines, cranes, pipe-cleaning equipment, and line trend machines; monitoring and control systems for gas and oil pipelines; advanced and highly efficient oil and gas exploration and drilling equipment and technologies, particularly pontoons supported on columns, hoisting cranes, drilling rigs, bits, electric motors, winch rollers, rotary tables, sheds, hoisting blocks, monkey boards, crown blocks, gin holes, shackles, cutting, roller and diamond bits, casing sleeves, chemicals, stimulation technologies, modern 3-D seismic, drilling technology for offshore projects deeper than 200 feet underwater; equipment for atmospheric-vacuum oil refining; modernization and increasing of hydro-cracking and catalytic cracking capacities; units for catalytic transformation of distillates; industrial automation, control and monitoring systems for refineries, gas processing and petrochemical plants; desulfurization and quality control facilities; safety systems; fuel dispensers, fuel storage tanks, fuel level monitoring and accounting systems.

4. Agricultural Machinery and Equipment (AGM)

The agricultural sector plays a significant role in Ukraine's economy. Possessing a large portion of the world's fertile black soil and being located in a temperate climate, Ukraine is the sixth largest world exporter of grains (mainly wheat and barley). Currently, the farm sector faces a myriad of problems, including a lack of working capital, expensive credit, weak state support, and strong governmental control. Low purchasing power among Ukrainian farmers restricts growth in agricultural machinery sales.

Experts estimate the current level of depreciation of agricultural machinery and equipment at 70-90 percent. Approximately 40 percent of tractors are 15-25 years old. The need to replace basic farm machinery is becoming critical. In most cases, funding is available for normal short-term farm operating costs. However, it is the lack of long-term credit that seriously constrains Ukrainian farms of all sizes from purchasing major farm equipment. Today, there is no adequate legal infrastructure within Ukraine for equipment leasing. This factor limits the options available for small farms. GOU policies aimed at protecting local equipment manufacturers

have substantially increased equipment prices while limiting the availability of foreign equipment. For example, high import duties limit access to reliable and reasonably priced spare parts for foreign equipment, while at the same time causing new equipment prices to be prohibitively expensive as compared to prices in nearby countries.

There are about 40 manufacturers of agricultural machinery in Ukraine. Industry leaders include three plants, which manufacture tractors (Kharkiv Tractor Plant, Pivdenny Tractor Plant and LAN Concern), and two plants, which manufacture harvesters, located in Kherson and Ternopil. Production facilities at most agricultural machinery plants are currently being utilized at levels ranging from 15 to 30 percent. Lack of credit and absence of purchasing power have produced a sharp drop in domestic manufacture of agricultural machinery and equipment.

Despite limited resources to acquire new farm equipment, strong demand continued within Ukraine for modern grain-harvesting machinery. When the available fleet of grain harvesters proved insufficient for the 2001 harvest, the Cabinet of Ministers issued a decree, "On bringing into the territory of Ukraine used grain combine harvesters." This decree allows for the import of combine harvesters that are 8 or more years old. In 2001 Ukraine imported 83 new grain harvesters (83 percent of which are Russian-made), and 1,047 used grain harvesters.

The grain harvester's market share held by American companies is lower than the share of European manufacturers. For the past few years major country-importers of new and used grain harvesters into Ukraine remain as follows:

Country	Market share (percent)
Germany	44.2
Russia	33.3
Italy	3.6
USA	3.3
Denmark	2.7
Other countries	12.9

Agricultural machinery production in Ukraine (pieces):

Year	1999	2000	2001
Tractors	4984	4034	3642
Grain harvesters	127	82	240
Fodder harvesters	200	154	300
Sugarbeet harvesters	607	350	400
Seeding machinery	1153	1953	3500

Agricultural machinery production has drastically decreased in 1990-2001. The following data strikingly illustrate this problem:

Availability of agricultural machinery at agricultural enterprises (thousand pieces):

Year	1990	1995	1997	1999	2000	2001	2002
Tractors	495	469	361	347	319	259.6	228.3
Grain harvesters	107	91	72	70	65	58.3	48.9

U.S. agricultural machinery has a good reputation in Ukraine. The list of U.S. manufacturers includes AGCO Corporation, Massey Ferguson, John Deere, Caterpillar, and Case/New Holland. They offer a full range of equipment and parts, including spare parts, for cultivating, growing, harvesting and transporting, as well as equipment for livestock production. Receptivity to U.S. agricultural machinery is quite high. Field tests have proven that high-quality U.S. equipment can have a positive impact on Ukrainian agricultural productivity. While U.S. machinery is well represented in Ukraine, there are still good opportunities for U.S. companies to enter the Ukrainian agricultural machinery market. Existing critical demand for reconditioned (used) machinery is worth mentioning as well.

5. Airport/Ground Support Equipment (APG)

Since year 2000, the Ukrainian civilian air transport sector has been steadily increasing in passenger flow, with a peak 26% growth shown in 2002. Market experts predict that this positive trend will continue, and the air

travel market may double by 2005, provided that current economic reforms stay on track.

Radical changes are bound to hit the Ukrainian airport sector. The Government of Ukraine (GOU) has initiated creation of an airport holding with the purpose of bringing the Ukrainian airport infrastructure in compliance with international standards. The GOU plan envisages a unification of seven largest Ukrainian airports, which together account for over 85% of all air passenger and cargo traffic in Ukraine. These airports are: Kyiv-Boryspil, Kyiv-Zhuliany, Simferopol, Dnipropetrovsk, Donetsk, Odessa and Lviv. Ukraine currently has 36 civilian or dual-civilian/military airports, of which 18 have an international status.

Ukrainian airports have the potential to service six million passengers annually (according to data provided by the Ukrainian MOT), but currently operate at under 40% capacity. Kyiv-Boryspil is the largest Ukrainian airport servicing almost 70% of passenger traffic. 2,200,000 passengers flew through Boryspil in 2002, a 14% growth compared with 2001. Boryspil serves almost 75% of international flights from Ukraine. Cargo handling capacity at Boryspil is close to 100,000 tons of cargo and mail per year. The MOT hopes to turn Boryspil airport into a hub for most major international connections, while the regional airports would feed travelers from regions.

The modernization of air navigation in Ukraine is a high priority of the government. The current outdated ATC system, inadequate air traffic services, substandard communications systems and dilapidated infrastructure in Ukraine have all had a negative impact on the country's ability to attract additional flights, carriers, and air routes. The current potential for U.S. exports in the Ukrainian ATC is US\$23 million secured by the EBRD loan issued to GOU in 2000, which was based on US TDA's feasibility study. The opportunities exist in upgrading of two airport tower facilities (Dnipropetrovsk and Simferopol), provision of voice communications systems (VCC's), MSSR's, and other ATC systems.

Additional opportunities for U.S. firms exist in developing air cargo transportation. The Ukrainian government recently revealed its plans to develop a cargo hub near Kyiv, and offered opportunities in consultancy, engineering and supplies of related equipment.

(Market Size Data is not available for this sector.)

6. Drugs & Pharmaceuticals (DRG)

Ukrainian pharmaceutical market shows a stable growth for the recent 3 years. In 2002 the total market grew by 19 percent to the year's 2001 volume, and reached USD 682.1 million. The growth resulted from increases of both imports and local pharmaceutical production.

Imported pharmaceuticals - USD 402 million or 59 percent of the total market in 2002 - still dominate. Moreover, imports show higher rate of growth than local production (25 and 4.3 percent of growth respectively in 2002). The leading pharmaceutical exporter to Ukraine is Germany (17.6 percent of all imported pharmaceuticals). India holds the second place (12 percent share in imports.) U.S. share in 2002 was 3.5 percent. Most of multinational pharmaceutical manufacturers are present at the Ukrainian market either with their representative offices or through local distributors.

400 Ukrainian companies imported pharmaceuticals in 2002. However, 100 companies conducted 90 percent of total imports (in value). Private distributors dominate the market. The association of state-owned distributors "Liky Ukrainy" (Medicines of Ukraine) has the exclusive right to purchase and trade in controlled substances (such as narcotics, psychotropics, anesthetics, adrenaline, plasma substituting solutions, substances for cytostatics.) The largest distributors are: Optima-Pharm, Alba Ukraine, BaDM, VVS-Ltd, Medpharcom, Falbi, Farmaco, Medopt-ABC, Elegant-Pharm and Gledpharm.

Local pharmaceutical industry increases production although the rate of growth has slowed down in 2002 compared to previous years. Local production volume reached USD 320 million, including USD 40 million of exports (mostly to Russia and former CIS countries).

There are 58 major pharmaceutical manufacturers in Ukraine, most of them privatized. Domestic manufacturers operate in the lowest price segment of the market, supplying predominantly generic drugs, branded generics and vitamins. The largest local producers are: Darnytsia, Kyivmedpreparat, Pharmak, Borshchahivsky Chemical and Pharmaceutical Plant (Kiev); Stryrol (Donetsk); Zdorovia (Kharkiv); Halychpharm (Lviv); and Biostimulator (Odessa).

In late 2000, the Ukrainian government extended its deadline from 2002 to 2007 for pharmaceutical producers to become GMP compliant; this affects only manufacturing sites located in Ukraine. In the longer term, some multinationals may look closely at potential acquisitions or joint ventures in Ukraine. Access to local manufacturing capacity would offer significant advantages in the current regulatory climate, and it will become clear within the next several years which domestic producers are likely to succeed in efforts to reach international GMP standards.

Market Size Data (in \$ millions):

	1999	2000	2001	2002
A. Total Market Size	290	450.7	571.8	682.1
B. Total Local Production	180	245.8	298.4	320
C. Total Exports	30	40.2	47.6	40.0
D. Total Imports	140	245.1	321	402.1
E. Imports from the U.S.	5.3	9.8	12.8	14.0

(Source: the Ministry of Health of Ukraine.)

7. Electrical Power Systems (ELP)

Ukraine's power generation comes mostly from nuclear and thermal coal/gas-fired power plants, with small input from hydro and co-generation. Nuclear subsector is state-owned and still highly depends on Russia for nuclear fuel (all imported from Russia) and essential equipment, since its Soviet-type reactors only operate on Russian-made fuel assemblies. Ukraine has no indigenous nuclear fuel cycle capabilities. Ukraine had to ship its spent nuclear fuel and pay to Russia for storage. In 2001, the first Ukraine's Dry Storage for Spent Nuclear Fuel was put into operation on Zaporizka NPP, with Duke Engineering (US) managing this construction project. Ukrainian government plans to build spent fuel storage facilities on other Ukrainian NPPs.

Construction of two major decommissioning facilities, Spent Fuel Storage and Liquid Waste Processing, is ongoing on the Chernobyl NPP that is currently not in operation; both facilities are scheduled for completion in 2003-2004. Open tenders are held for procurement of various categories of equipment and services within the Chernobyl Shelter Implementation project (scheduled for completion in 2007). These projects are financed from the Chernobyl Shelter Fund and Nuclear Safety Account, both administered by EBRD. Equipment procurement actions are approved by Energoatom national nuclear power generating company that Ukraine's nuclear power plants are subordinate to.

Ukraine's thermal power generation subsector is mostly state-controlled, with outdated equipment and lack of funding for upgrade. The only private thermal power generating company Vostokenergo is investing in upgrading its three coal-fired power plants. Power distribution system is 30% private, and private shareholders invest in upgrading the transmission lines, installation of efficient monitoring, metering and control systems. Major opportunities (largely dependent on financing from international financing institutions) are available in upgrading the centralized municipal heating systems, which are in use in most Ukrainian cities, and are worn out and unreliable. One of the major projects currently underway is the World Bank-financed Kiev District Heating Improvement Project, with on-going open tenders for procurement of necessary equipment and technology. Responsible agency - Kyivenergo power generation and distribution company. Total project cost is about US\$ 250 million, of which WB loan - US\$ 200 million. Project includes refurbishment and increasing reliability of the heat supply system in Kyiv.

Major U.S. companies working in Ukraine's power sector include: AES - electric power distribution; Emerson Process Management, Honeywell, GE International, American Power Systems - automation and process controls, non-interruptible power supply systems; Washington Group, Duke Engineering - nuclear waste management; Caterpillar - engines and gensets, Pratt & Whitney - turbine blades refurbishment; Teledyne Laars, Mestek - water heaters and steam boilers.

Best sales prospects for U.S. suppliers include: high-voltage and energy saving technologies, including: electric components for high-voltage and low-voltage equipment; switching equipment (including high-voltage bushings); electric current and voltage transformation equipment; technology for power distribution and transmission, including: distribution substations, cable lines, electric power transmission lines; technologies, equipment and software for power distribution and transmission companies, including information technologies; equipment for thermal power plants, including technologies for burning coal, and for reducing pollution when burning coal; water purification and cooling technology; electrical products for relay protection

and automation; technology for replacing the winding for turbogenerators of 1000 MW capacity; electrical motors for feeding pumps, portal cranes and conveyor belts, accumulator batteries, assorted bearings, circuit breakers, disconnectors, support insulators, generating sets; low and medium capacity boilers, tubular stacks for boilers, assorted valves, superheaters, spare parts for fans, piping for boilers, steam ejectors, metering pumps, nickel-steel tubing; efficient steam and gas turbines and turbine auxiliaries; process instrumentation and controls; technologies for alternative electric power, including solar heating systems and solar batteries for Crimean customers; technology for wind power generation, mostly large capacity (600 kW-1MW) wind power turbines for industrial applications; small-capacity (up to 50kW) wind power turbines for private Ukrainian consumers (farms, cottages etc.).

8. Food Processing & Packaging Equipment (FPP)

Food processing is one of the fastest-developing sectors of Ukraine's economy, growing an estimated 30 percent in 2000, 24 percent in 2001 and 30 percent in 2002. In 2002 the food industry accounted for 20 percent of the Ukraine's overall output volume. Over 40 percent of all foreign direct investment since independence has gone to food processing and 80 percent of farm investment has been in food processing. Despite these encouraging statistics, a number of impediments inhibit growth in this sector: lack of established wholesale purchasing networks, lack of a dependable, quality raw materials supply, increasing import barriers in Russia and the lack of properly enforced food quality standards. Policy makers are increasingly recognizing that food safety standards need to be brought into compliance with European and world standards in order to expand Ukraine access to markets.

The market reforms and the opening of the Ukrainian market have brought about a significant change in the range, appearance and quality of food products over the past seven or eight years. From a widely fragmented market with unbranded product lines, the Ukrainian food and drinks market has transformed into a relatively developed market featuring a wide range of both international and local brands. Within the last three years more than six supermarket chains have started operating in Ukraine offering over 85 percent of the products that are made locally. Locally produced sweets, alcoholic beverages, beer and soft drinks, and dairy and meat products have actually ousted imports from the market.

The market for processing and packaging equipment in Ukraine has grown with the demand for safe, attractively packed food products with long-shelf life. Ukrainian food producers are upgrading their production facilities and searching for new technologies that will enable them to remain competitive in the domestic market and allow them to increase exports. With upgraded processing and packaging technology, Ukraine can conceivably become an important exporter of processed food to the former Soviet republics, Central Europe, and the Black Sea basin. There is a strong preference for foreign equipment (better quality and technology) and in many cases there are no local manufacturers of certain food-processing and packaging equipment. There is also a large potential market for reconditioned and used equipment.

Currently, there are up to 50 manufacturers of food-processing machinery in Ukraine. Despite Ukraine's attempts to replace previously imported food processing and packaging equipment with locally produced equipment, it is highly unlikely that Ukraine will produce equipment in the near future that will meet world standards. The market share for food processing and packaging equipment held by American companies is low in comparison with their European competitors. European suppliers present a strong and competitive image in the marketplace. Nearly 80% of the imports come from major suppliers in Germany, Italy, Sweden, and Denmark. Major Eastern European suppliers are located in Hungary and Poland, although their market shares are now declining because they offer little cost advantage over Western European manufacturers.

9. Medical Equipment (MED)

There are no accurate statistical data on the size of the Ukrainian medical equipment market. Imported equipment dominates the market. Major exporter to Ukraine is Germany. Some medical equipment is produced in Ukraine, but production is not competitive on a global scale.

Best sales prospects for U.S. exporters include: laboratory equipment, radiographic units, electro-medical equipment, dental equipment, laser surgery devices, sterilization devices, diagnostic systems and disposable items.

The market potential for laboratory equipment (i.e. centrifuges, ultracentrifuges, spectrophotometers, nuclear counters, and blood grouping systems) is high in Ukraine. Opportunities exist for electro-medical equipment and dental equipment (i.e. complete workstations, dental syringes, needles and laboratory products). Modern

equipment offering ease of use and cost savings is required in the fields of microsurgery, radiology and biomedicine.

Medical equipment traders are prime contacts for U.S. businesses entering the Ukrainian market, due to their extensive networks and ability to identify buyers. The major purchasers of medical equipment are state-owned regional and "vidomichi" (departmental) hospitals, the latter owned by various ministries and enterprises. The potential for private hospitals has been increasing.

Market Size Data (in USD millions):

	1999	2000	2001	2002
A. Total Market Size	180	200	210	240
Total Local Production	170	180	190	200
B. Total Exports	70	70	80	90
C. Total Imports	80	90	100	130
D. Imports from the U.S.	8	9	10	12

(The above statistics are unofficial estimates.)

10. Computers & Peripherals (CPT)

The exact size and structure of the Ukrainian computer hardware market is difficult to measure, since official statistics ignore such key factors as local production and shadow (parallel) imports of components. Industry insiders estimated the capacity of the local computer market in 2002 600,000 units. Experts believe that almost 800,000 computers will be sold in 2003. This figure may grow to 1,000,000 units in 2004. Due to a higher rate of taxation of imported finished PCs opposed to imported components, local production using imported components is thriving and reshaping the market. Based on data provided by market insiders, the rate of imports of finished assembled "brand name" computer equipment has stabilized after showing a steady decrease during previous 3-4 years. At the same time, demand for locally manufactured computer hardware (from imported components) is steadily increasing. This segment accounts for more than 80 % of the total market.

The growing success of local manufacturers in general motivated European Bank for Reconstruction and Development to invest \$8 million into the construction of the biggest private computer factory in Ukraine built by Kvazar-Micro Corp., biggest Ukrainian IT company. The factory was launched on April 22, 2003. Its capacity allows for manufacturing 200,000 computers a year.

Solid growth in export-oriented heavy industries in 2000-2002, as well as a resurgence of the local machine-building sector in 2001, generated a substantial increase in demand for computer hardware and software for industrial needs. Ukrainian manufacturing industries (i.e. machine building, food processing, textile, oil and gas, railroad transportation) have created an increase in demand for automation control systems; corporate networks design, development, and maintenance; servers; and main frames. Many of the Ukrainian enterprises that barely survived over the last five years, reported increased revenues and began investing in upgrades of their manufacturing control and monitoring, corporate management, and bookkeeping systems.

Additionally, several educational programs announced by local government and funded through the national budget will further increase the market share of low cost, locally assembled PCs. Home computers are becoming more and more common in large cities.

11. Agricultural Chemicals (AGC)

The market for pesticides in Ukraine is fairly large. The overall annual shortage in supply is currently estimated at 35,000 tons, needed to cover an area of 19 million hectares. Over 30% of the annual harvest is lost due to controllable insects, fungi and weeds.

The agricultural chemicals market is still in a state of flux, and offers opportunities for U.S. producers of new low-chemical, low-risk products. The estimated annual size of the pesticides market in Ukraine is USD 200 to USD 225 million.

Local pesticide and agricultural chemical production meets only 20% of Ukraine's annual needs, and even this limited production depends upon imported raw materials. Local production of pesticides utilizing local compounds is expected to meet only one fourth of the total demand this year. Ukraine will need to rely on imported chemical compounds to meet the demand for pesticides.

Production of agricultural chemicals in Ukraine in thousand tons:

Product	1998	1999	2000
Nitrogen fertilizers	1675.0	2060.0	2202.0
Phosphate fertilizers	240.0	238.0	81.7
Potash fertilizers	20.6	21.3	20.2
Herbicides	0.2	0.2	0.4
Other plant protection chemicals	1.7	1.6	0.7

Competition within the agro-chemical market in Ukraine is complex, due to the presence of many foreign companies distributing products directly and through their local distributors. U.S.-made pesticides have an excellent reputation for efficiency and environmental friendliness. U.S. companies (and their European subsidiaries) have a strong competitive position in the herbicide, insecticide and seed disinfectant markets. However, fungicides are still dominated by Swiss and Ukrainian companies.

Currently, about 30 companies supply their products to the Ukrainian market, including such well-known giants as the Swiss corporation Novartis; German companies AgrEvo, Bayer and BASF; French Ron-Poulainc; British Zeneca and Uniroyal Chemical; Spanish Inagrossa; and Takeda, Nippon Soda, Nihon Noyaku, Nissan Chemical, Sumitomo Chemical and Sankyo from Japan. Cyanamid Overseas Corporation, Dow Elanco, Du Pont, FMC, Monsanto, and Cargill represent American products at the Ukrainian pesticide and agricultural chemical market.

An increasing number of small and medium farms caused the development of new approaches to satisfy the needs of small producers. During the past few years both Ukrainian and Western suppliers started opening farm supply stores to sell smaller volumes of inputs to a broader range of farmers.

The best potential for U.S. firms wishing to enter the market and those already operating in Ukraine is in pesticides that combat weeds, plant diseases and insects. Since agricultural producers cannot grow decent yields of crops without the use of pesticides, it can be projected that the pesticide market (i.e. for herbicides and insecticides) will continue to grow.

12. Automotive Parts/Services Equipment (APS)

Cars

The Ukrainian car market is largely dominated by NIS car manufacturers (VAZ, GAZ, UAZ, AvtoZAZ followed by Korean (Daewoo, KIA, Hyundai), and German (Volkswagen-Skoda, Opel, Mercedes). The American brands are represented by Canadian Winner-Ford dealer and the local GM-Ukraine dealer sell two makes of American car. Both have locally established dealerships with service centers. Other American car brands are channeled from Russian and Western Europe dealerships.

According to Ukrainian experts, as of January 2003 Ukraine counted 5 459 000 cars registered in Ukraine, 4 640 000 (85 percent) of which are vehicles over 8 year age. Annually, there is 2-3 percent increase in total number of cars.

In 2002 Ukrainian motorists bought 107 thousand of cars (estimated USD 1 billion). According to the Ukrainian expert, such a tendency will remain in future years with increasing number of Western brand cars on the Ukrainian roads.

Automotive Parts

The Ukrainian market for auto parts is developed and competition is high. The supply of new parts for cars is abundant both for NIS manufactured and Western cars models. According to Ukrainian experts, the Ukrainian market for new and used spare parts is valued at estimated \$ 240 million annually.

The main suppliers in Ukrainian cities are automotive service stations, affiliations of large traders and automotive flea markets, which buy crashed and obsolete vehicles for parts. Automotive flea markets are also important for used automotive spare parts. Used parts account for an estimated \$70 million of the total Ukrainian automotive car market.

Car body, engine, fuel and electric car parts

The Ukrainian annual market for this group of spare parts is estimated at USD 30 million. The strongest demand is for front and rear lights, bumpers, radiator grills, wheel disks and calipers, hood and trunk lids, wings (i.e. the parts most vulnerable in car accidents). Starters, generators, radiators, gearboxes, doors, are also needed.

Car Batteries

About 1.1 million automotive batteries are sold annually in Ukraine, 20 percent of which are imported. Two domestic manufacturers dominate, but at least 10 foreign producers have introduced their products to the market. Sales of local products total US\$33 million; imports total US\$14 million.

Car Filters

Ukraine has a \$ 30 million oil, air and gas filter market. The annual demand is estimated at 40 million filters. 75 percent are supplied from NIS countries, and 25 percent (for Western cars) are supplied from abroad. 63 percent of all filters sold are for oil and lubrication, 21 percent for air, and 16 percent are for gas.

Tires

Annual sales of automotive and truck tires total around \$ 80-85 million. Annually imports totals USD 40 million and local production USD 45 million.

Automotive Glass

The Ukrainian market for automotive glass is estimated at USD 15 million, with imports totaling USD 10 million. Windshields account for 70 percent, side windows - for 25, and rear glass- for 5 percent in annual sales.

Car Security And Anti-Theft Devices

According to Ukrainian auto spare part wholesalers, sales of various anti-theft security devices in Ukraine is estimated at \$12-15 million annually. According to estimates of Ukrainian car parts and accessory sellers, the annual Ukrainian market for various car security systems is comprised of 90-100 thousand anti-theft electronic systems, 50-60 thousand non-removable mechanical locks and 30-40 thousand removable locking devices.

Brakes and parts

The Ukrainian sales potential for automobile brake and parts is valued at USD 20-23 million. Imported brake shoes account for about 90 % of the market, leaving domestically produced brake shoes, only a 10 % share.

Shock absorbers

The market for car shock absorbers in Ukraine accounts for estimated USD 15 million. Imports account for 70 percent (estimated USD 10.5 million) and domestic products for 30 percent (estimated USD 4.5 million)

Automotive Workshop Equipment

The aging of the existing automobile population, significant growth in automobile sales, stringent government technical inspection and environment regulation will encourage market demand for auto repair and maintenance equipment. Thus, Ukraine introduced EURO 2 Standard for new vehicles imported into Ukraine as mandatory. Older automobiles continue to need maintenance and new automobiles require technical repair and maintenance services, forcing automobile repair shops to update their equipment.

The majority of Ukrainian car service stations are privately operated.

The total annual market for auto repair and maintenance equipment is estimated to be worth US\$65 million and is supplied almost entirely by imports, of which the United States has a 15 percent market share.

European manufacturers have a distinct price advantage over U.S. manufacturers due to their closer proximity and reduced transportation add-on costs. Meeting the Ukrainian buyer's preference for higher quality professional equipment can offset this price disadvantage.

Automotive Additives, Fluids And General Car Care Products

Ukraine's annual market for automotive additives, fluids and general car care products (hereinafter "automotive chemicals") is estimated to be worth US\$ 62 million, of which US\$40 million is covered by imports. The United States has a 15 percent share of the import market, corresponding to a value of an estimated US\$6million.

Trade and distribution in automotive chemicals are in private hands. The Ukrainian automotive chemical market is highly dispersed, and the number of local distributors is on the rise. A few Ukrainian distributors trade in products from a sole Western manufacturing source, but most offer several Western brands to suit the client needs and increase sales.

There are several factors in sales in the Ukrainian market for car care products. Price is the primary factor. Other factors include quality, the recommendation of a car service specialist, or "word of mouth" and availability in retail and wholesale outlets.

Automotive Paints

According to unofficial published information, the annual sales of car paints in Ukraine is estimated at US\$ 20 to 25 million. According to estimates of Ukrainian paint wholesalers, Ukrainian market for automotive paints consumes 250-300 ton (190-220 thousand liters) of acrylic automotive paints, and 1600-1700 ton (1,3-1,4 million liters) of alkyd automotive paints annually.

Although Ukraine has many plants producing paints and enamels, none of them manufacture automotive enamels. One reason is because the production of automotive paints needs sophisticated equipment. Secondly, the pigment ingredients for the production of automotive paints are manufactured abroad and importing them into Ukraine for local production is costly. Therefore the Ukrainian market for automotive paints is 100 percent import dependent.

To maximize chances for success in selling automotive-related products, service equipment and expendables, U.S. companies must consider a variety of local and regional distribution options. American suppliers can choose from a small but growing number of existing Ukrainian distributors. These Ukrainian agents can be helpful in placing new products on store shelves, handling customs and transportation matters and conducting promotional campaigns by placing advertisements in mass media or exhibiting equipment at major automotive trade shows.

American exporters must be aware that each new type of imported product is subject to certification that quality and safety conform to Ukrainian regulations. The certification process requires that a sample from the planned import batch of the product be tested and approved by a Ukrainian laboratory.

13. Building Materials (BLD)

The Ukrainian market for building materials offers sound opportunities to American exporters. The developing Ukrainian construction industry is looking for new supply sources and contacts.

The Ukrainian market for building materials is highly competitive. German, Italian, Scandinavian, French, and Spanish exporters are aggressively promoting their products. Many well-known European brands are represented at construction shows held in Kyiv. U.S. building products have increased their market share, but remain a small percentage of the overall building materials market.

Major distributors have set up building material chains and supermarkets as one-stop shops for consumers

and wholesalers. Price and quality are the decisive factors in consumer choice. To reduce prices and increase competitive advantage, several European companies have established joint ventures to manufacture building materials in Ukraine.

Kyiv is well supplied with imported building materials. Pricing for building materials in more remote areas is higher than in central and western Ukraine, although the gap is decreasing. Kharkiv, Dnipropetrovsk, Donetsk, L'viv, Odessa, and Zaporizhzhya offer potential for foreign exporters and investors interested in expanding operations into Ukraine. Cooperating with importers located in or oriented toward industrial regions of Ukraine may be advantageous for U.S. exporters.

In most cases, local production of building materials satisfies the need of the construction industry for low cost items, when compared to imported products. But this price differential is decreasing, making room for the importation of foreign building materials.

It should be highlighted that NOT ALL imported building products have good marketing potential in Ukraine.

Low market demand is evident for: imported cement, bricks (domestic production is abundant), clay roofing shingles (customers desire metal shingles or asbestos roofing materials), asphalt shingle, bituminous sarking and tar paper.

Moderate market demand is evident for metal roofing components. Seven domestic metal producers are able to fulfill demand, although fixtures, sheeting and anti-corrosion components for production are imported. Imported metal shingles are available from Finland, Sweden, German and Poland.

In cement, local producers of dry mixes are numerous, but the quality is not always acceptable. Moreover, local production of mineral binding materials (gypsum and lime) is on the decline. Nearly all-local manufacturers import chemical binding, conditioning, and coupling agents. But Prices for these imports have begun to rise, opening the door for new low cost suppliers.

Best Sales Prospects include:

- a. Linoleum (imported linoleum has improved coloring, is more than 2 meters wide),
- b. Carpet and tufted floor covering (there is only one domestic producer),
- c. Interior ceramic tiles (imported tiles have improved coloring and size variety),
- d. Wallpaper (better quality and coloring).
- e. Insulation (imported mineral wool has improved packaging, variety in sizes and pricing),
- f. Paints (local production is abundant for alkyd penta- phthalic oil paints, but production of acrylic paint, is in flux).

Annual import market for building materials is estimated at USD 570-580 million

MARKET SIZE TABLE FORMAT (US DOLLARS MILLIONS)

	2000	2001	2002	Projected Average Annual Growth Rate for Following 2 years (%)
Import Market	567	577	578	1%
Local	691	700	695	1%
Exports	409.5	412	404	1%
Total Market	848.5	865	869	1%
Imports from U.S	18	17	18	

SOURCES: (Note: Reliable, complete, and accurate statistics on production, imports, and exports of goods are not available in Ukraine. Information contained in this report relies on sources that include government publications, opinions of industry participants, and unofficial U.S. Embassy estimates.)

14. Pollution Control Equipment (POL)

The Ukrainian government has placed a high priority on the need to address the critical state of the environment. In March 1998, the Parliament of Ukraine adopted the "Main Directions of the State Policy of Ukraine in the Field of Environmental Protection, Natural Resources Use and Maintenance of Environmental Safety". This is the basic document in Ukraine's National Action Plan on Environmental Protection. Implementation of this program will allow Ukraine to create the ground for the new environmental policy that corresponds to the requirements of the "Environment for Europe" international process.

To handle urgent pollution problems in Ukraine, a number of projects have been proposed. The most critical of these projects are waste treatment in the coal mining and construction industries. Other vital projects include the reconstruction and introduction of new technologies for the thermal power and oil refining industries, along with soil remediation and municipal wastewater treatment. However, most of the projects have been precluded or are only in the stage of feasibility study.

Ukraine has not yet developed a self-sufficient national infrastructure for waste management and disposal. The market for waste recycling equipment is in development phase. A positive trend in increasing the proportion of recovered waste started in 2000 and was confirmed in 2001 and 2002. Some 51 types of waste are now recovered or recycled, which account for about 60% of waste generation (2001 data). The most significant of these is the use of coal waste and steel slag as construction materials.

Although significant, the pollution control equipment market in Ukraine cannot be calculated using traditional methods. Market size analysis is complicated by the difficulty in obtaining exact statistical data from Ukrainian institutions. Virtually all municipal water treatment facilities and industrial pre-treatment systems need replacement and reconstruction. The majority of Ukrainian industrial enterprises are also in need of reconstruction and installation of new water and air pollution control systems. Production, installation and distribution of various pollution control systems are vastly needed. Significant strategic opportunities exist for U.S. companies in this emerging market, which should be studied on a case-by-case basis.

(Market size data is not available for this sector.)

15. Travel and Tourism (TRV)

U.S. companies that specialize in hotel and resort development, theme park development, winter sports facilities, tour development, concept design, convention business, construction and redevelopment of airports and marinas have the best opportunity to participate in the upgrade and expansion of Ukraine's tourism infrastructure. Despite an overall economic slump, tourism has become one of the key drivers of the Ukrainian economy, generating US\$4.2 billion in 2002. In Crimea alone, proceeds from tourism make more than half of the Crimean government budget.

Ukraine's tourist accommodation facilities include nearly 1,300 hotels and more than 2,000 health resorts. Ukraine considers these recreational facilities (sanatoriums, spas, boarding houses, mud treatment facilities and others) as tourism facilities, rather than medical treatment institutions. However, the quality of service and the number of hotel amenities are well below the typical expectations of Western tourists and the prices are very high in relation to the quality of service offered. Only in 2002, Ukraine outlawed the former practice of charging different rates to foreigners than to locals. In 2003, GOU plans to introduce a visa waiver program for tourists from EU, USA and Canada, Japan and Australia.

According to the Ukrainian Border Control Service, 15.6 million Ukrainians traveled to other countries in 2002 (1.5% drop over 2001). The major outbound destinations were Poland, Russia, Hungary and Moldova. 23,500 Ukrainians visited the United States in 2002. All major European airlines operate regular services to and from Ukraine. U.S. carriers do not yet operate direct flights to Ukraine, in most cases offering code-share services with their European partners in global alliances.

Almost 13 million foreign arrivals were registered in 2002 (a 7.5% growth compared with 2001). Most foreign visitors in Ukraine originate from Russia, Germany, Austria, the USA, and Canada. The State Tourism Administration reported that 6.3 million foreigners visited Ukraine in 2002 with the purpose of tourism. The most popular destinations in Ukraine are Kyiv (roughly 35% of all visitors), Crimea (30%), the Carpathian region including Lviv (15%), Odessa, Chernihiv, and Kamyanyets-Podilskiy.

Kyiv is one of the few cities in the world in its stature without international hotels. Radisson SAS hotel development projects in Kyiv and Odessa have been underway and are expected to be finished in 2004.

Marriott International has several projects in Kyiv at the inception stage. A delivery date for Intercontinental St. Sophia has been postponed numerous times since 1998. Hilton Hotels decided not to pursue projects in Ukraine at this stage after several unsuccessful attempts in Kyiv. Red tape and corruption on local levels, corporate non-transparency of local partners, unregulated land ownership, and lack of capital on the market have been the main deterrents in developing internationally operated hotels in Ukraine. Ukrainian law prohibits ownership of land by foreigners, and therefore all existing hotel projects have to be carried out on the basis of a land lease term of 49 or 99 years.

16. Security & Safety Equipment (SEC)

American-made security and safety equipment is one of the most promising industrial sectors for export to Ukraine. Rising crime, weak law enforcement, and the emergence of a strong business mafia have compelled many Ukrainian citizens to take matters into their own hands. While existing legislation restricts the purchase and use of firearms by the average citizen, many citizens rely upon a variety of security devices and alarms for their homes and cars, including car alarms, house alarms, advanced technology locks, and closed-circuit TV. The rapid growth of private banks has been accompanied by an increased demand for safety deposit boxes, safes, metal detectors, pagers, smoke detectors, and sophisticated turn-key security and access control systems. Ukrainian companies are often willing to pay top dollar for an effective security package, as seen by the proliferation of Ukrainian security companies. Domestic manufacturers are unable to meet demand, both in terms of quantity and quality desired. U.S. companies are advised to use trade exhibition opportunities to make valuable contacts and to contact private Ukrainian security firms directly. U.S. firms should also note that the import of security and safety equipment requires certification from the Ukrainian Ministry of Internal Affairs, which is often a cumbersome process.

(Market size data is not available for this sector.)

17. Computer Software & Services (CSF)

A more legitimate and transparent market for computer software is quickly taking shape in Ukraine. There was a marked effort by the Ukrainian authorities to fight software piracy at the end of 2001. Experts estimate that the annual revenues of the Ukrainian computer software industry reached \$125 million in 2002. Approximately half of this market belongs to imported software. The other half belongs to software products developed in Ukraine on offshore basis.

Enforcement of IPR legislation as well as steady growth of the Ukrainian economy in 2000-2002, and resurrection of local manufacturing industries have generated a substantial increase in demand for computer software for industrial and business needs.

On October 1, 2002 representative of Microsoft announced that company sales in Ukraine grew 327% from October 1, 2001, which is an unprecedented growth success. Software for PCs comprises 86% of Microsoft products sold in Ukraine (Source: www.for-ua.com). Other U.S. and international importers of software also report strong sales growth. Microsoft's Office and Windows programs are currently the most widely used office software in Ukraine. This software is installed on approximately 98% of all PCs operating in the country.

These successes of software suppliers would be even more impressive if not for obstacles created by complicated and controversial Ukrainian licensing procedures and customs regulations. Troublesome procedures were introduced to stop software piracy, but in fact their main victims are the importers of legitimate software.

On the other hand, Ukraine is slowly emerging as a low cost site for high quality software development. Industry insiders believe that this subsector of Ukrainian economy is growing 15%-20% annually with revenues reaching \$45-55 million. Some experts estimate that annual revenues generated by software development industry may be as high as \$100 million. (Source: Kompanyon, No. 28, July 2002). Unofficial estimates indicate that this industry employs 10,000-15,000 people. The above differences are explained by the fact that the producers work mostly alone or in small groups on outsourced projects ordered from abroad. These export-oriented activities are usually not reflected in official statistics.

There is a growing interest among Ukrainian computer companies to organize software production centers that could participate in international software development projects. Unfortunately, high levels of emigration among qualified programmers as well as controversial Ukrainian legislation and oppressive taxes have delayed development of legitimate software technoparks in Ukraine. Industry experts believe that Ukrainian

software development industry offers good opportunities for U.S. firms willing to operate on this market.

18. Retail (RTL)

Ukraine is in the middle of a supermarket boom. The increasing popularity of cash-and-carry stores and supermarkets with urban households has encouraged developers to open more western-style supermarkets. Kyiv, Dnipropetrovsk, Donetsk, Kharkiv, Odessa, and Lviv provide good trade opportunities for U.S. retail chain developers and equipment suppliers.

With a notable exceptions of leading global retailers, Ukraine has become home to many international brands from haute-couture designers to hundreds of local brands. However, the actual size of this fast-growing industry has been hidden by official statistics, partly because of the large proportions of black and gray segments of the local economy. Market experts believe the actual size of the retail market is between \$45 and \$55 billion.

Austrian BILLA, and Dutch SPAR pioneered the market in 2002 with opening their first stores around the country. Opening of the METRO stores in Kyiv in summer 2003 is expected to be the most powerful entry that may re-structure local retail sector.

Other popular Ukrainian cash-and-carry chains are Fozzy, Rainford, Fourchette, Tiko, and Mega-Market. The number of large shopping outlets is expected to increase by 20, for a total of 45 by the end of 2003. This trend may offer good sales opportunities for U.S. manufacturers and suppliers of supermarket equipment (cash registers, conveyors, bar-coding machines, scanners, ATM's, security systems, refrigerators and freezers, etc.) U.S. supermarket developers and chain owners may try to follow the market entry success of European retail companies.

(Accurate Market Size Data is not available for this sector.)

B. Best Prospects for Agricultural Products and Services

Domestic food and beverage prices in Ukraine remain significantly lower than those of imported goods. Imported food and beverages are much more expensive in Ukraine for a variety of reasons. Import duties are levied up to 50 percent of the product's value. The value-added tax (VAT) on imported goods is also very high at 20%. Alcoholic beverages, cigarettes, coffee, and chocolate are subject to an excise tax. Finally, Ukrainian importers and retailers set a high profit margin for foreign goods.

1. Alcoholic Beverages

Ukraine has 87 plants that are licensed to produce alcohol. They can process up to 900,000 tons of grain and 1.1 million tons of molasses per year, producing roughly 320 million liters and 300 million liters, respectively. In addition, there are hundreds of other producers of spirits, liqueurs, wine, and cognac.

A 1998 Presidential Decree established the State Committee of Ukraine for Monopoly on the Production and Turnover of Ethyl Alcohol, Alcoholic Beverages, and Tobacco Products. This Committee is authorized to: (1) control production, export, import, transportation and sale of the above-mentioned goods; (2) issue relevant licenses; (3) fine violators of this legislation; and (4) submit proposals for introducing minimum prices for alcohol and tobacco.

The Ukrainian beer industry has grown considerably over the last five years. Industry experts predict the market share for imports will drop from five to six percent as the trend continues. Currently, over 100 Ukrainian enterprises are involved in beer production, offering a broad range of nearly 180 light and dark beer brands to Ukrainian customers. In 2001, Ukraine produced 130.7 million deciliters of beer (an 18% increase from 2000 levels and a 36% increase over 1999). Over the next few years the total output of leading domestic breweries is expected to increase one and a half to two times. There are also nearly 40 types of imported beer available on the market, with Heineken, Kilkenney, Guinness, Pilsner, Tuborg, DAB, Corona, and Beck's among the most popular. According to various sources, Ukraine's annual per capita beer consumption is 12-15 liters.

The seven largest breweries control almost 80% of the total domestic market:

- Obolon brewery - 31.9%
- Sun Interbrew-controlled Rogan, Yantar and Desna breweries - 28.7%

- BBH-controlled Slavutych and Lviv breweries - 18.0%
- Donetsk brewery Sarmat, the largest in the Donetsk beer group (includes Donetsk brewery and affiliated Poltava, Dnipro, Luhansk, Kyiv #1 and Krym breweries) - 8.5%.

Since the beer industry in Ukraine is a profitable business, breweries are seeking new technologies to expand their share in the domestic market and to increase exports. Competition among major breweries is increasing. In order to retain their market position, brewers must demonstrate flexibility in developing their product portfolios, distribution network and pricing.

Current major investors include: Scandinavian Baltic Beverages Holding Co., which has invested in the Slavutych Beer and Soft Drinks Plant (Zaporizhzhya) and the Kolos Brewery (Lviv), which is building a new brewery in Kiev. The Sun-Interbrew investment company controls the Rohan Brewery (Kharkiv), the Desna Brewery (Chernihiv), and the Yantar Brewery (Mykolayiv), and has bought a well-known local brand name, Hetman, to produce its own Hetman brand beer. The investment company Investco Ceam (registered in Cyprus) is working with breweries in Odessa and Mykolayiv.

Some breweries prefer imported raw materials because they are cheaper and because domestic raw materials are often of inferior quality. Import duties of 30 and 50 percent are imposed on malt and hops, respectively. Most hops are imported, with Germany being the leading supplier. Granulated hops are produced locally by only one plant, the Berdychiv plant in Zhytomyr region. Two specialized plants located in Berdychiv and Slavuta supply domestic malt.

There are currently no local manufacturers of brewery equipment. This is a good area of opportunity for U.S. companies to enter the Ukrainian beer market. Ukrainian breweries have primarily been operating with equipment imported from Western Europe. U.S. companies exploring opportunities in Ukrainian breweries and microbreweries should bear in mind that there is also strong demand for beer within the adjacent CIS and Eastern European markets.

Ukrainian alcoholic beverages sector output in 2000 and 2001 (in mln deciliters):

	2000	2001
Beer	107.4	130.7
Champagne	3.4	3.5
Cognac	1.6	1.4
Fruit wine	2.8	1.9
Grape wine	7.9	12.3
Vodka and liquor	18.8	15.3

2. Agricultural and Food Products

Prior to 1991, Ukraine supplied one third of the Soviet Union's processed food needs. In the ensuing decade, financial instability, low GDP and the lack of market-oriented reforms resulted in a dramatic decline in the domestic food industry. While the 1998 financial crisis forced many imported products out of the market, it was also the impetus for the rapid revival of Ukraine's food processing industry. The renewal of the domestic food and agricultural processing sectors, coupled with protective import tariffs for all food products, has resulted in over 95 percent of all Ukrainian food consumed being of domestic origin. It is anticipated that Ukraine's bid to accede to the World Trade Organization in 2004 will result in a liberalization of food and agricultural import policies, including the lowering of import duties, which will benefit both foreign exporters and the Ukrainian consumer.

FAS Kiev has identified the following bulk, intermediate and consumer-oriented product categories as the best prospects for export to Ukraine:

1. frozen poultry meat
2. frozen pork
3. frozen high-quality beef
4. frozen seafood
5. snack food including tree nuts, peanuts and raisins
6. dried egg powder

7. livestock genetics
8. pet food
9. seeds for planting
10. soybeans
11. soybean meal
12. cotton

POULTRY MEAT. From November 2001 to March 2003, the Ukrainian authorities banned the import of U.S. poultry meat, stating that U.S. product did not meet Ukrainian veterinary standards. An export protocol and interim U.S. export certificate for poultry was negotiated in March 2003. Ukraine maintains high import duties on imported poultry meat. Trade is generally only profitable through a company with import privileges through a Free Economic Zone (FEZ).

PORK AND BEEF. There are currently no U.S. export certificates in place for export of red meat products to Ukraine. Ukrainian authorities maintain that these products do not meet Ukrainian veterinary standards. Embassy Kiev and USDA Washington continue to negotiate the lifting of the ban on U.S. red meat products. As with frozen poultry, high import duties and trade limited to privileged importers through a FEZ would remain barriers to trade once the sanitary issues are resolved.

Please refer to USDA's Food Safety and Inspection Service Export Library at the following website for the latest information on exporting meat products to Ukraine: <http://www.fsis.usda.gov/OFO/export/ukraine.htm>

FROZEN SEAFOOD. U.S exports of frozen seafood to Ukraine have been sporadic in recent years. However, as incomes grow and consumers increase their protein intake, seafood has become an attractive, albeit expensive, choice. Freshwater fish has a traditional niche in Ukrainian cuisine. Salmon is also widely consumed.

SNACK FOOD INCLUDING TREE NUTS, PEANUTS AND RAISINS. While western snack foods from Europe have made considerable inroads in Ukraine, very few U.S. products are seen on store shelves. Potato chips, popcorn, pretzels, cookies and crackers, salted nuts, and other snack foods are becoming increasingly popular, particularly as younger Ukrainians who live in the big cities increase their discretionary income. The major barrier to importing processed food products is high tariffs, averaging about 30 percent.

EGG POWDER. U.S. egg powder has an excellent reputation among Ukrainian food processors. Despite no official U.S. veterinary export certificate, U.S. suppliers enjoy a small but lively trade with Ukraine in powdered egg products. In 2002, trade was valued at US\$97,000. Importers and exporters are eager to expand trade pending negotiation of an official export certificate, which complies with current Ukrainian veterinary regulations.

LIVESTOCK GENETICS. Ukraine's livestock numbers were devastated during the decade following Ukraine's independence. Herd numbers are about half of what they were during the Soviet era. FAS Kiev believes that there is good opportunity for improved genetics for beef cattle, dairy and swine operations. Due to BSE and FMD, most European genetics are banned from Ukraine. This leaves the United States and Canada as potential major commercial suppliers. To date, there has been limited trade in U.S. animal genetics established with Ukraine. As with most other U.S. veterinary products, there is no U.S. export certificate currently in place for livestock genetics.

PET FOOD. Ukrainian pet owners are increasingly willing to purchase high-quality pet food rather than feed pets the traditional table scraps. Pet food must be registered with the State Department of Veterinary Medicine of Ukraine prior to import. Please contact the Office of Agricultural Affairs in Kiev for current Ukrainian import requirements for U.S. pet food.

SEEDS FOR PLANTING. Ukraine's grain and oilseed sectors, as well as fruits and vegetables, could benefit from improved plant varieties. GOU policymakers continue to voice their distrust of biotechnology, despite ongoing domestic biotech research. At present, only non-genetically-modified varieties are likely to pass the registration process.

SOYBEANS AND SOYBEAN MEAL: The recovering domestic livestock and poultry sectors are limited by a deficit in protein feed within Ukraine. In 2002, Ukraine directly imported U.S. soybeans valued at over US\$2.5 million, the highest import level recorded. U.S. soybean meal imports in 2002 were valued at over US \$2.7 million.

COTTON: In 1998, Ukraine imported a record quantity of U.S. cotton valued at US\$11 million. U.S. imports have been at considerably lower levels since with 2002 imports at barely US\$150,000. Ukraine's textile industry may now be in a position to import greater volumes of U.S. cotton.

Trade Data:

Total imports (000USD)	HS Code	1997	1998	1999	2000	2001	2002	Av.1997-2002
Total agricultural, food and forestry imports	1-24, 4407, 5201	\$922,231	\$1,083,863	\$961,702	\$923,538	\$1,144,239	\$1,125,126	\$1,026,783
- U.S. Share		15%	12%	13%	7%	10%	5%	10%
1. Poultry Meat	0207	\$76,248	\$55,689	\$87,270	\$17,537	\$62,826	\$29,698	\$54,878
- U.S. Share		87%	72%	87%	86%	85%	24%	74%
2. Pork	0203	\$3,771	\$7,470	\$9,731	\$1,103	\$2,553	\$1,342	\$4,328
- U.S. Share		1%	7%	0%	2%	1%	1%	2%
3. Egg products	0408	\$907	\$1,112	\$674	\$313	\$832	\$652	\$748
- U.S. Share		18%	0%	0%	3%	9%	15%	8%
4. Pet Food	2309 1	\$3,760	\$6,624	\$4,760	\$6,838	\$10,414	\$13,150	\$7,591
- U.S. Share		7%	1%	2%	4%	6%	6%	4%
5. Beef	0202	\$1,640	\$3,787	\$1,974	\$2,982	\$3,440	\$791	\$2,436
- U.S. Share		4%	3%	6%	2%	1%	3%	3%
6. Livestock Genetics	0511 1	\$77	\$97	\$28	\$30	\$59	\$55	\$58
- U.S. Share		0%	0%	0%	0%	0%	0%	0%
7. Seeds for Planting	1209	\$15,028	\$13,323	\$7,944	\$11,152	\$8,569	\$9,286	\$10,884
- U.S. Share		0%	1%	2%	0%	0%	1%	1%
8. Soybeans	1201	\$1,218	\$2,878	\$317	\$13	\$237	\$3,353	\$1,336
- U.S. Share		90%	87%	3%	46%	2%	78%	51%
9. SBM	1208 1,2304	\$11,756	\$13,028	\$6,666	\$2,146	\$17,840	\$20,647	\$12,014
- U.S. Share		97%	0%	5%	34%	31%	13%	30%
10. Hardwood lumber	4407	\$11,786	\$9,853	\$7,582	\$4,456	\$2,360	\$1,160	\$6,199
- U.S. Share		0%	0%	0%	0%	1%	4%	1%
11. Cotton	5201	\$12,515	\$22,790	\$7,828	\$10,964	\$16,325	\$10,205	\$13,438
- U.S. Share		0%	48%	4%	6%	5%	2%	11%
12. Frozen fish	0303	\$68,898	\$122,729	\$67,102	\$58,816	\$67,096	\$60,449	\$74,182
- U.S. Share		2%	0%	2%	2%	1%	2%	1%
13. Snack Food	1905	\$35,238	\$5,430	\$2,568	\$4,915	\$6,090	\$7,615	\$10,309

- U.S. Share		0%	2%	4%	5%	6%	2%	3%
14. Peanuts	1202	\$8,506	\$11,937	\$9,317	\$9,282	\$9,577	\$9,722	\$9,724
- U.S. Share		1%	1%	3%	4%	4%	2%	2%
15. Nuts	0802	\$7,384	\$5,669	\$5,157	\$6,713	\$8,254	\$6,121	\$6,550
- U.S. Share		6%	7%	7%	6%	12%	5%	7%
16. Raisins	08062	\$1,801	\$3,619	\$4,936	\$4,088	\$4,534	\$5,767	\$4,124
- U.S. Share		7%	11%	6%	2%	0%	3%	4%

C. Significant Investment Opportunities

As enterprises within the machine building and high-technology defense sectors convert their production to commercial and consumer goods, opportunities exist for U.S. investment in the production of such items as computer equipment, components, and peripherals, the creation of specialized software, building materials, the joint manufacturing of telecommunications equipment (primarily satellites and fiber optics), and the production of security and safety equipment. The following is an overview of key investment opportunities in the most promising sectors. Where appropriate, opportunities arising from bilateral foreign assistance or multilateral development bank-funded projects are discussed.

1. Electrical Power Systems (ELP)

Ukraine has seven power generating companies, which supply electricity to the national grid. Four thermal power-generating companies, Dniproenergo, Donbasenergo, Zakhidenergo and Tsenterenergo, manage 14 large thermal power plants (TPPs). Two hydro power generating companies, Dniprohydroenergo and Dnisterhydroenergo, comprise a cascade of six hydro power plants (HPPs) and one hydroelectric pumping storage power station (HPSPS) located along the Dnieper River, and one HPP located on the Dnister River. Energoatom national nuclear power generating company manages five Ukrainian nuclear power plants (NPPs). Twenty-seven Ukrainian power distribution companies, thirteen of which are now privately controlled, receive electric power through the wholesale market ("Energomarket") at wholesale cost from generating companies. Electricity is transported through the high-voltage central transmission networks, which belong to Ukrelectroperedacha power transmission company, then through local middle and low-voltage transmission lines, which belong to the regional distribution companies, and then to the consumers. The National Dispatch Center (NDC), which includes eight regional dispatch centers, controls stability in the energy grid.

Ukrainian legislation provides that thermal power generating companies and regional power distribution companies must be privatized. Ukrainian power companies need investments for technical upgrading, therefore need to be privatized by experts in the management of electric power utilities, with straightforward investment programs. Privatization of regional power distribution companies began in December 1997. As of June 2002, thirteen power distribution companies were privately owned, including seven owned by Ukrainian oligarchs. AES Corporation (USA) purchased Kievoblenergo and Rivneoblenergo. The stock distribution plans of four thermal power generating companies stipulated that the state would retain a 50 percent plus one share for five years and 15 to 24 percent would be sold on privileged terms, primarily to enterprise employees with 26 to 35 percent being sold on tender.

The electric power sector offers possibilities for U.S. companies and investors to participate in the upgrading of thermal and hydropower plants, especially improvement of control systems and supply of gas meters and energy-efficient technologies. Excluding Chornobyl, the estimated total investments envisaged for the power industry in both non-nuclear generation and nuclear generation equal US\$3.88 billion in 1996-2000 and US\$5.22 billion in 2001-2005. The Ministry of Energy and Fuel's thermal rehabilitation project requires capital investments of about US\$500 million per year (1996-2005). The estimated cost of the turbine replacement program for hydropower plants was US\$45 million in 1996-2000 and is US\$28 million in 2001-2005. The government is attracting investors to complete construction of new thermal power generation units, including a 225-MW unit at Dobrotvir TPP, and new hydropower utilities, including small-capacity stations on Carpathian mountain rivers.

The EBRD-financed US\$158 million Darnytsia Power Plant Modernization Project is being implemented by the Ukrainian-Canadian joint venture Ukr-Can Power, which manages the Darnytsia Power Plant. The project includes modernization of the plant using efficient gas turbines, advanced boiler technology, up-to-date power generation installments, and proper control systems. It is anticipated that the implementation of the new equipment and advanced technologies would cut the plant's fuel consumption in half.

2. Energy Efficiency (EE)

Pavlograd and Odessa City Councils, Kharkivteploenergo company and Ukrenergoconsulting company are looking for investments and equipment suppliers for their city district heating upgrade and CHP plant refurbishing projects. Berdiansk Mayor is promoting investment project of decentralized city heating and installation of individual boiler units. Yalta City Council is looking for investments and technology for their waste-to-energy plant project.

3. Oil & Gas Services (OGS)

The largest investment projects include the following: 1) the major Ukraine's oil production company Ukrnafta is looking for partners to reconstruct and upgrade Kachanivsk Gas Refinery; 2) UkrTransNafta, Ukraine's oil transportation monopoly, is looking for participants for the international consortium to operate the Odessa-Brody pipeline and Yuzhny oil terminal, to build the pipeline extension to Plock in Poland, and to pump Caspian crude to Central and Southern European markets. 3) The major Ukraine's gas transit company UkrTransGaz is attracting foreign investors and equipment suppliers to modernize the Ukrainian gas transporting system, particularly for building co-generation units on gas compressor stations and increasing the efficiency of compressor stations.

Chapter 6: Trade Regulations and Standards

A. Taxation

The Ukrainian tax system has evolved continually since Ukraine's independence. A growing number of double taxation agreements reflect an effort on the part of Ukraine to harmonize its tax system with international standards. In addition, over the past several years Ukraine has abolished several onerous practices that severely damaged the business climate. For example, in 1999 the practice allowing local tax authorities to retain 30 percent of fines collected was abolished. This effectively turned the State Tax Administration (STA) into a predator and induced tax collectors to impose maximum fines, or to exploit unclear and contradictory aspects of the tax laws in order to generate fines. Tax authorities are now required to transfer to the state budget all fines collected. In addition, the practice of allowing the STA to debit from taxpayers' bank accounts any taxes which the STA deemed due without prior notice or judicial review has been suspended.

Taxation tops the list of investment barriers in Ukraine. The sizable number of taxes, as well as frequent changes of, and complexity in, tax legislation and reporting requirements are considered by the business community to be some of the most serious problems. The STA has established an advisory committee to resolve tax disputes brought by foreign companies. However, some investors report that STA continues to conduct arbitrary inspections, often motivated by political considerations or induced by a company's competitors.

Income received from royalties and interest is subject to a 15 percent withholding tax. The withholding tax on dividends is 30 percent. Corporate profits distributed as dividends are taxed as corporate profits (30 percent) and as income of shareholders (at a fixed 30 percent rate). However, the shareholders' tax can be credited against that of the company so that in effect only one profit tax is levied. Dividends repatriated abroad are subject to a 15 percent repatriation tax, which is in lieu of the 30 percent tax for domestic shareholders but cannot be credited against the tax liabilities of the company. It might, however, be reduced or even eliminated through double taxation agreements.

Although the corporate tax rate is nominally 30 percent, the actual burden shouldered by businesses can be higher due to the tax laws treatment of amortization and depreciation allowances. For instance, only acquired assets may be amortized but not assets contributed by shareholders to the charter fund of a subsidiary. Limitations also exist on a company's ability to write-off investments in its production facilities. Such reasons are why it is important to obtain the services of experienced international accountants for tax-reporting purposes. Many local accountants have not yet made the switch to the international accounting standards required for tax reporting. The corporate tax rate is due to fall to 25 percent on January 1, 2004.

The Verkhovna Rada passed several new tax laws in 2002 including a new Enterprise (Corporate) Profits Tax Law, a new Personal Income Tax Law (reducing personal income taxes to a flat rate of 13%) and a new VAT law (reducing the rate from 20% to 17%). All changes will become effective January 1, 2004.

B. Trade Barriers: Tariffs, Non-Tariff Barriers and Import Taxes

Firms complain that the VAT system is poorly administered and some firms, particularly exporters, have reported that their VAT refund claims were not honored. Exempt goods include raw materials, component parts, equipment, machinery, and energy for production purposes and the enterprise's own needs. Zero VAT rates have been established for the following: sale of certain agricultural products by farmers until 2002, import of materials and equipment used for the development of the domestic ship-building until 2005, import of materials and equipment and exports of domestically produced space and equipment until 2009, import of materials and equipment used for the development of special chemical and ammunition production industry (excluding excisable products) until 2010, imports of goods used for the development of the domestic car construction industry and exports of domestically produced or assembled cars and compartments (under the condition of making at least US\$150 million investment) until 2008, sale of recreation services in the Crimea resorts until 2005, and business development and work places creation in Slavutich until 2004. As the list of goods exempted from VAT changes frequently, businesses should contact a local tax expert for the most up-to-date list.

In January 2000, border checkpoints began collecting a new uniform customs duty, combining seven import fees - customs clearance, sanitary, veterinary, phytosanitary, radiation, ecological control, as well as fees charged for the passage of vehicles on the motor roads of Ukraine - into a single tax. Ukraine employs a two-tiered system of general (full-rate) tariffs and preferential (partial-rate) tariffs. Imports from Western countries are usually assessed preferential tariffs, which vary according to the types of products imported. Import duties largely depend on whether a similar item to that being imported is produced in Ukraine, and if so, the rate tends to be higher. U.S. exports to Ukraine usually receive preferential customs rates if the following three criteria are met: (1) the company is registered in the United States; (2) the goods have a certificate to prove U.S. origin; and (3) the goods are imported directly from the United States. In 2000, exemptions from import duties, as well as the VAT, were created for certain import contracts for shipyard equipment through January 1, 2005, under a law giving state support to the shipbuilding sector. Effective February 19, 2001, duties on used foreign cars doubled for cars under five years old and tripled for cars more than five years old. Duties on new cars remained the same.

There are currently four categories of excisable goods: alcohol, tobacco, oil products, and automobiles. On October 24, 2002 President Kuchma signed a law which will increase excise rates on alcohol, beer and gasoline. Excise duty rates range from 10 to 300 percent of the declared customs value. Excise rates vary often in accordance to whether the imported good is produced in Ukraine. Excise duty rates are expressed as a percentage of the declared customs value, plus customs duties and customs fees paid for importing products. Payment should be made in Ukrainian currency at the Ukrainian National Bank exchange rate effective on the day of payment.

C. Customs Valuation

Customs valuation in Ukraine conforms to world standards, where customs value is defined as the sum of the sales price, transportation costs, freight, insurance, storage fees, and any other costs not foreseen in the contract price. Receipts should be presented to document these costs and to allow customs officers to determine the proper customs value. In the event that receipts are not available, Ukrainian customs will assess the customs value using comparative pricing of similar goods and services in the country of origin.

D. Import Licenses

On January 6, 2000, the Ukrainian Cabinet of Ministers passed a resolution regulating import licenses. Goods subject to import licensing include: agricultural chemicals, pharmaceutical products (except dental materials and sutures), veterinary medicines, cosmetics, hygiene products, matrix forms used in the manufacturing of audio production, and ozone-depleting chemical substances (including propellants for spray-paints and enamels, perfume, body lotions, etc., paint solvents, fire extinguishers and refills, oil sprays, air-conditioners and refrigerating equipment, and refrigerated vending machines). In early 2001, the Cabinet of Ministers passed another resolution aimed at licensing the import of industrial-grade polycarbonate, the main raw material used to produce optical media compact discs.

Most import licenses are granted through the Ministry of Economy. Import licenses for sporting weapons and self-defense articles are issued by the Ministry of Internal Affairs. Other import licenses are issued by:

- the Ministry of Agriculture, the State Chemical Commission (for agricultural chemicals) and the Ministry of Ecology (if such substances are supplied in sprays);
- the Ministry of Health (for pharmaceutical products, cosmetics, and hygiene products) and the Ministry of Ecology (if such substances are supplied in sprays);
- the Ministry of Agriculture, Department of Veterinary Medicine (for veterinary medicines);
- the Ministry of Education and Science (for matrix forms used in the manufacturing of audio production);
- the Ministry of Ecology (for ozone-depleting chemical substances including propellants for spray-paints and enamels, perfume, body lotions, etc, paint-solvents, fire extinguishers and refills, oil-sprays, air-conditioners and refrigerating equipment, and refrigerated vending machines).

A copy of the contract and the import certificate are basic documents necessary for obtaining an import license.

E. Export Controls

Export control is administered by Ukraine's Department of Analysis and Coordination of Export Policy, Cabinet of Ministers. The Ministry of Foreign Economic Relations and Trade of Ukraine also monitors and sets export prices for a number of Ukrainian goods.

Cabinet of Ministers of Ukraine Resolution #767, dated July 15, 1997, determines provisions for the examination of Ukraine's export and import goods. The controlled goods are understood as:

- military and other special commodities and "dual-use goods";
- military and special goods (armaments material, explosives, components, and accessories thereof, and attendant technologies, also other products and technologies, works, and services designed to be applied in the military sphere or those qualified as state secrets);
- certain commodities, equipment, materials, software/firmware that may be used when developing weapons of mass destruction (e.g., nuclear, chemical, bacteriological, biological, and toxic weapons), delivery vehicles, or when developing conventional armaments and special equipment.

Export control is administered by authorities of the Government Export Control Policy Commission and the Derzhexportkontrol (National Export Control Committee) implementing national control over protection of national security interests in compliance with Ukraine's international commitments regarding non proliferation of weapons of mass destruction and delivery vehicles, restricted transfer of conventional armaments, and other measures aimed at protecting national interests.

Government and non-government expert examinations in the export control domain may be preliminary, basic, repeated, and supplementary.

Preliminary examination is carried out to identify objects needing expert examination (listed as controlled goods); to assess the given business entity's observance of the export control laws and presence of appropriate regulatory documentation; and to assess the possibility of delivering goods designated by the given business entity to certain countries. Basic expert examination is aimed at preparing substantiated findings to be used in deciding on the possibility and conditions of exporting/importing and/or transiting certain controlled goods. Repeated expert examination may be carried out if there is any infringement of the terms and conditions of preliminary or basic examination, or if requested by the customer ordering such expert examination, provided essential shortcomings have been discovered in such preliminary or basic expert findings. Supplementary expert examination is carried out when there are circumstances affecting or capable of affecting preliminary or basic expert findings.

A person/entity ordering a preliminary, basic, repeated, or supplementary expert examination has the right to: determine the need of such expert examination, request replacement of experts, and receive progress reports at all stages of such expert examination. Ukrainian law prohibits the disclosure of any information relating to the documents involved in the expert examination or produced as a result of this examination without the customer's written consent.

A preliminary expert examination in the export control domain is mandatory, and is carried out by the Derzhexportkontrol. This involves other central executive authorities and government bodies, along with legal entities authorized by the Government Export Control Policy Commission.

In order to have controlled goods examined using preliminary expert procedures, a business entity forwards a brief summary in writing to the Head of Derzhexportkontrol, along with:

- three copies of an application for such preliminary expert examination, using the prescribed form;
- notarized copies of the statute, constituent agreement, and official registration certificates of this entity;
- a technical affidavit specifying each object/item to be exported/imported, along with technical characteristics and a reference to an entry in the relevant list of controlled goods. Should this entity intend to export/import technologies, works or services, the said technical affidavit shall include summaries of these technologies/works/services. This technical affidavit should be signed by the official in charge of the given entity and by the commander of the military agency there (if any) and carry the official seals of this entity and military agency;
- an affidavit/statement certifying the classification (secrecy) of the goods subject to expert examination, to be signed by the official in charge of the entity, head of its special departments and by the commander of the military agency (if any), attested to by the official seals of this entity and military agency;
- a list of countries to which such controlled goods will be exported or vice versa;
- a reference/affidavit/statement identifying officials securing the given entity's compliance with the current export control laws.

Any non-governmental expert findings commissioned by the given entity should also be enclosed.

The term of such preliminary expert examination depends on the range and quantity of the goods concerned and lasts up to sixty days from the date of presentation of the complete package of required documents by this business entity.

Basic expert examination is mandatory for deciding whether to issue a permit for the import, export or transit of controlled goods. This examination in the export control domain is carried out by the Derzhexportkontrol, other central executive authorities, and government bodies acting within their respective competence, also by legal entities and experts acting under appropriate authority (as submitted and justified or substantiated by the Derzhexportkontrol, or as resolved by the Government Export Control Policy Commission).

Basic expert examination is carried out as per documents submitted by the given business entity requesting permission to export/import controlled goods. Lists of these documents are determined in relevant provisions and regulations dealing with import/export/transit procedures with regard to controlled goods. These lists are subject to approval by the Cabinet of Ministers of Ukraine.

Given the fluid environment in Ukraine, U.S. businesses are advised to contact the Ukrainian Center for Export and Import of Special Technologies, Machinery and Materials for the latest information concerning export controls. Contact Oleksandr Siver, Director, 19/21, Frunze St., Kyiv, Ukraine; Tel: (380-44) 462-5558; Fax: (380-44) 463-7147.

F. Import / Export Documentation

Firms importing goods into Ukraine should expect to be confronted with the slow workings of the country's bureaucracy and a large volume of paperwork. Importers are required to complete a customs freight declaration for every item imported. Use of licensed customs brokers to navigate the often non-transparent and seemingly inconsistent customs regulations is recommended, as constantly changing regulations and, in many cases, the mood of the customs officer, can hinder the successful import of a product.

Many U.S. companies with the intention to invest will import equipment, vehicles, and other goods under the aegis of authorized capital (or statutory fund), which will be exempt from customs duties. Goods that are to be re-sold in Ukraine, however, are subject to VAT, import taxes and fees, and, if applicable, excise taxes.

According to international practice, all imported/exported goods are subject to customs and border control checks. There are 70 approved customs clearance points across Ukraine - at all international ports, international (and several domestic) airports, and railway and road border crossing points. Every checkpoint covers a particular geographical area. Therefore, U.S. exporters should decide whether to pay all taxes and duties at the border or at the customs checkpoint nearest to the imported goods' final inland destination. Although the procedures are generally the same, the latter method is considered preferable. Customs clearance can be a lengthy process, so it is better that goods are secured and guarded until closer to their final destination point. The importation of alcohol and tobacco goods into Ukraine can only be cleared through the

Sevastopol, Mariupol, and Ilichevsk ports.

Upon crossing an international border point, goods will be classified in one of two ways: transit or customs cleared. If marked transit, the container or vehicle will be sealed by customs authorities and then customs cleared at its final destination. Additionally, vehicles transporting goods marked for transit which are subject to excise taxes are required to be wrapped in a transit band all the way through Ukrainian territory. This band is obtained at the customs checkpoint and has an assigned number, which is designated on the customs declaration.

The importer/freight forwarder should have all documents ready for presentation to the Ukrainian customs authorities, including:

- the signed contract;
- cargo customs declaration with the description and value of goods, term of payment (i.e., cash, bank transfer, barter, etc.) and terms of shipment. If payment is made by bank transfer, the name of the bank, address, and account number should be included;
- import license, if required;
- if importing weapons, ammunition, explosives, or poisonous substances, written permission is required from the Ministry of Internal Affairs;
- if importing electronic radio and equipment and high-frequency devices, written permission is required from the State Telecommunications Committee;
- if importing drugs, medical preparations, and sources of ionizing radiation, written permission is required from the Ministry of Health.

G. Temporary Entry

Regulations pertaining to foreign companies and representative offices bringing in demonstration and exhibition samples are governed by the "Temporary Clause on the Regime for the Temporary Import of Goods, Property, and Transportation Means," issued by the State Customs Committee of Ukraine on December 30, 1991. These regulations classify imported items designated for demonstrations at exhibitions, fairs, and trade shows, as the temporary import of a foreign company's property, which is to be returned to that country afterwards. The temporary import of demonstration samples, excluding goods not allowed for importation, can be undertaken without registering the importer as a subject of foreign economic activity in Ukraine. This bypasses a burdensome bureaucratic process.

Temporarily imported goods can remain in Ukraine for one year from the date a customs declaration is submitted. If warranted, this term can be extended by local customs authorities for the duration of an economic, scientific, humanitarian, or other event in which the temporarily imported goods are required. The set term of temporarily imported goods should be reflected in the customs declaration. Samples may be shipped out of the country after usage via any customs point. Prior to their customs declaration expiration, temporarily imported goods should be:

- returned outside the Ukrainian customs border;
- declared at customs for further use;
- passed to customs for storage in a bonded warehouse; or demolished under customs control if these items cannot be used as goods, products, or equipment.

The following documents are required for temporarily importing demonstration samples: a customs declaration, permission from the respective Ministry, if required, and other documents outlined in the customs declaration.

Prior to being returned, samples are inspected by customs authorities to ensure that the quantity and description of goods match those registered at the time of importation. The customs fee for temporarily imported goods is US\$30 for each customs declaration. When a large number of samples are imported, additional pages, costing US\$15 each, should be attached. Demonstration samples to be returned outside Ukraine are exempt from customs fees.

In 1997, Ukraine imposed additional limitations on the temporary entry of cars to Ukraine. Corporations and individuals may now bring only one car per company/individual into Ukraine, for a period of three years, exempt from customs fees.

H. Labeling and Marking Requirements

Ukrainian commercial legislation does not impose general labeling requirements on imported goods, except food items. Effective January 1, 1997 all imported food products should carry labels in the Ukrainian language. The labels should include information about the manufacturer, product ingredients, and expiration dates for quality control purposes. In addition, some labels/markings have to be adhered to specific products, including labels for hazardous materials, labels indicating the contents and expiration date of foodstuffs, and markings indicating the voltage and frequency of electrical appliances. Detailed information on labeling requirements for particular products can be obtained from the relevant Ukrainian ministries and agencies.

I. Prohibited Imports

The Ukrainian government strictly controls and restricts the import of weapons, narcotics, chemical and hazardous substances, certain pharmaceutical and communications related products.

U.S. companies wishing to import these goods should contact the relevant Ukrainian government ministry responsible for issuing licenses (for example, the Ministry of Internal Affairs licenses the import of hunting rifles). For further information, please contact: U.S. Department of Commerce, Bureau of Export Administration, 14th and Pennsylvania Ave., N.W., Washington, DC 20230; Tel: (202) 482-0500.

J. Standards

Imported products/goods are subject to sanitary, veterinary, radiological and ecological control. Ukraine's regulatory environment is in flux and foreign firms have found the production certification system procedures to be difficult. Ukraine's numerous certification bodies effectively operate as independent (often monopolistic) entities on a private profit basis. Many products require multiple certificates from multiple agencies at local and regional levels, requiring investors to provide additional documentation beyond that required by central agencies.

A 1994 governmental decree imposed compulsory certification requirements for goods imported into Ukraine. The decree specifies a list of goods subject to certification and regulates certification procedures. Certificates may be one of two types: (a) Certificate of Acceptance of a foreign certification issued by the Ukrainian State Standardization Committee (DerzhStandard), and (b) Conformance Certificate issued by a Ukrainian agency upon certification of goods. This decree states that certificates issued by foreign certification authorities are to be recognized in Ukraine only to the extent provided in international treaties to which Ukraine is party. Taking into account that there are currently no intergovernmental agreements on product certification between Ukraine and the U.S., a foreign certificate of acceptance will not be honored without first testing the product.

Product testing and certification generally relate to technical, safety, and environmental standards, as well as efficacy standards with regard to pharmaceutical and veterinary products. Such testing often requires official inspection of the company's production facility at company expense and is often done on a unit-by-unit basis rather than "type" testing. Where Ukrainian standards are not established, country of origin standards may prevail. Ukraine applies a range of sanitary and phytosanitary measures that are not consistent with a science-based approach to regulation. The certification and approval process can be lengthy, duplicative, and expensive.

To apply for certification, the following documents issued outside Ukraine confirming a product's conformity to specific requirements are to be submitted to the DerzhStandard:

- an application stating that the company wishes to certify imported products;
- a certificate of conformity;
- standards (technical conditions) of production and the procedures for certification;
- a certificate of accreditation from the testing laboratory;
- a protocol/summary of test results;
- a certificate of quality control;
- a certificate of origin (manufacturing).

DerzhStandard has created a network of 93 certifying bodies and testing laboratories (centers) throughout Ukraine. Each center is responsible for testing a particular item. Companies seeking testing should first contact DerzhStandard, as they make the ultimate determination on certification.

DerzhStandard has adopted as national standards the ISO-9000 series for production systems certification. Based on these standards, Ukrainian certification bodies can evaluate the quality of a production system rather than the quality of a single product. The procedure for issuing ISO certificates requires a visit from Ukrainian standards specialists to the importer's production facilities to inspect the system's quality. Adoption of the ISO-9000 series should facilitate the process of certifying goods as system quality certificates are issued for a three-year period. According to DerzhStandard, the ISO900 standard certificate doesn't prevent the importer from certifying individual products. However, with this certificate, only selective goods will be certified according to the procedures described above.

Since 2001, the Ukrainian parliament has passed several new laws on standardization and certification to streamline the standardization process. Ukraine would like to harmonize its standardization and certification system with international norms, and plans to bring its standardization system into conformity with the European Standards System by 2008. On August 1, 2002 a National Accreditation Body was established to ensure the use of standards and procedures consistent with the European Cooperation for Accreditation policy. Ukraine also began separate regulation of accreditation and certification. Regulatory reform has also been introduced at the regional and municipal level. Further reform is still needed, as government employees are underpaid and the shadow economy continues to provide many opportunities for corruption.

K. Free Trade Zones / Bonded Warehouse

Free Trade Zones

Since 1996, a total of 21 special economic zones (SEZ) or priority development areas (PDA) have been established, reportedly covering some 10 per cent of Ukrainian territory. The creation of free economic zones has been adopted as a method of regional industrial development.

Under the Ukrainian Law "On Special (Free) Economic Zones," adopted in 1997, there are three types of special economic zones in Ukraine: 1) special (free) economic zones; 2) territories with a special investment regime; and 3) territories of priority development. They differ by tax concessions granted to business entities that choose to operate in the zones.

The privileges enjoyed by enterprises operating in the zones can be summarized as follows:

- exemption from corporate profit tax, or reduced corporate tax rates, during the first three to five years of project implementation and taxation at reduced rates during subsequent periods;
- exemption from import duty and import VAT;
- reduced rates of withholding tax on income derived by non-residents and on dividends;
- exemption from mandatory conversion of revenues in foreign currency;
- exemption from social insurance tax and payments to the state innovation fund;
- exemption from land tax or taxation at reduced rates, and others.

The territories of special investment regimes and of priority development do not have independent customs borders like free economic zones. Each zone is managed by an administration that approves and registers all investment projects to be carried out in the zone. Normally, free economic zones are created for a period of 10 to 30 years. The Cabinet of Ministers of Ukraine approved a standard contract for implementation of investment projects in free economic zones. The contract has to be signed by the investor and the zone administration. It lists tax, customs and other benefits to be awarded to an investor, specifies phases of project implementation, investment schedules, new jobs, etc. The contract should also list predicted annual volumes of production, sales or services. The contract should state as a condition that a project must begin no later than three months after the signing of a contract.

Admission into an SEZ is frequently limited to large investors (e.g., investors investing more than US\$1 million in the zone). Enterprises within zone are subject to strict regulation and supervision by both the local bodies and the central agency on special economic zones, which is part of the Ministry of Economy. Procedures on the admission of investors into and out of an SEZ, as well as the powers of bodies entitled to interfere with business activities in SEZs, remain opaque.

The SEZs have come under heavy criticism from the International Monetary Fund because investments in these zones appear to come at the expense of investments elsewhere in the country. International observers and donors question the zones' success in mobilizing investments that would not have been otherwise made

in Ukraine. They also have argued that the fiscal benefits granted to business within the zones distort competition with businesses outside of the zones.

In recent years the Ukrainian government has not followed up on publicly announced intentions to reduce the number of zones in Ukraine. In early 2001 the Cabinet of Ministers authorized the Ministry of Economy to monitor the viability of the zones with the intention of closing those zones which are deemed to be ineffective in attracting investment. In April, 2001, the ministry recommended closure of one zone and questioned the viability of three others. Shortly thereafter, however, new zones were created in the Transcarpathian region. Amid all this uncertainty, large companies are tending to remain very cautious until the GOU delivers a clear policy on the future of the free economic zones.

Bonded Warehouses

As in many other countries, import-export operations may be conducted as sales through bonded warehouses. Using this system, the customer collects ordered goods by presenting a sales receipt to warehouse operators. Since such operations often involve offshore contracts, the bonded warehouse is a device frequently employed by non-resident companies that do not directly do business in Ukraine. Such bonded warehouses can be either state customs points or privately-owned warehouses for the use of one or multiple clients (open versus closed warehouses).

Most foreign investors simply lease space in existing privately bonded warehouses. Larger importers may prefer to establish their own closed and secured facility. A representative office should note, however, that the establishment of an open warehouse may be considered a commercial activity by the Ukrainian Tax Inspectorate and possibly be subject to relevant Ukrainian taxes. Common business practice in Ukraine is to utilize a "closed" bonded warehouse. Opening a bonded warehouse is a very complicated affair involving the State Customs Committee, a great deal of paperwork, and possibly organized crime.

To establish a bonded warehouse as an importer, one must first obtain a license to open a warehouse from the Ukrainian Customs Committee office nearest to where the warehouse will be established. To obtain such a license, one must present the following documents to Customs officials:

- an application (the application form should be obtained from the Customs Committee) stating that the enterprise wishes to establish a specialized bonded warehouse (solely for the storage of that enterprise's goods);
- a registration card of the entity opening a warehouse;
- a schematic diagram of the warehouse premises, indicating location of alarm systems and customs areas;
- an approximate list of goods intended to be stored in the warehouse.

Upon submission of the application and supporting documents, the warehouse must be ready for operation and equipped as a bonded warehouse. All interior renovations, including alarm systems, must be completed by this time. To open a warehouse, one must pay a set fee of the Ukrainian hryvnia equivalent of US\$500 (at the National Bank of Ukraine's official exchange rate). Formal registration of the warehouse is normally done within 15 days after an application has been submitted. As a bonded warehouse licensee, an enterprise should also note that it will have to hire an official customs inspector on an as-needed basis to actually clear and approve shipments of goods. As a licensee, the enterprise can hire its own personnel to supervise the submission of customs declarations, but the customs official actually approves final clearance.

L. Special Import Provisions

Parliament amended the Cabinet of Ministers decree "On the Unified Customs Tariff of Ukraine," dated June 12, 1997, to establish that changes in rates of duties stipulated in the Unified Customs Tariff are to be made only by the Parliament. However, temporarily, "until legislative regulation of issues involving the Unified Customs Tariff of Ukraine," the Cabinet of Ministers is granted the right to change customs duty rates on goods, except excise goods and goods for which duty rates are established by Ukrainian laws. Meanwhile, lowering duty rates for separate juridical and physical persons or on separate contracts, or exempting them from payment of the duty and postponing payment deadlines, are prohibited.

M. Membership in Free Trade Agreements

Ukraine has signed free trade agreements with all of the former Soviet republics except Tajikistan. Ukraine's agreement with Russia began unraveling in mid-2001, however, when Russia introduced VAT on Ukrainian imports. Ukraine also has a Partnership and Co-operation Agreement with the European Union (PCA). Under the terms of the agreement, Ukraine enjoys most favored nation status with the EU, but is not required to bind its own tariffs. Ukraine is also a party to the 1995 CIS free trade agreement. This agreement has never been effectively implemented, however. Ukraine participates in the Black Sea Cooperation Council, along with Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, the Russian Federation, Macedonia and Turkey. It is envisaged that the organization be developed into a free trade area. Ukraine has furthermore concluded trade agreements with 12 countries (Austria, Argentina, Armenia, Bulgaria, Canada, Estonia, Finland, Krygzstan, Latvia, Moldova, Russia and Switzerland). These agreements grant on a reciprocal basis most favored nation status to export-import operations with the countries concerned. As in the case of the PCA, Ukraine benefits via these agreements from the tariff concessions made by its partner countries who are WTO members without binding its own tariffs. Ukraine intends to become a full member of the Central European Free Trade Agreement (CEFTA), which is predicated on Ukraine first becoming a member of the World Trade Organization. In 2003, Ukraine started negotiating with Russia, Belarus and Kazakstan on creating a yet-to-be defined "common economic space." Negotiations are ongoing with the outcome far from certain as of mid 2003.

WTO membership has long been a proclaimed goal of Ukraine, and Ukraine has been engaged in the process of accession since 1993. Ukraine is still in the middle of the negotiation process. The U.S. Department of Commerce has assigned a resident advisor to assist Ukraine in developing economic trade laws in conformity with WTO requirements, and USAID expects to provide additional technical assistance in this area. Government officials have made various predictions about when Ukraine might actually become a WTO member. In early 2003, Ukraine's WTO Working Party agreed to start drafting the elements of an accession protocol. In order to accelerate accession, however, Ukraine will still need to adopt and credibly implement numerous WTO consistent laws and regulations. Some progress was made in 2003, particularly with regard to amending Ukraine's IPR regime to make it TRIPS compliant.

Chapter 7: Investment Climate Statement (*review not yet submitted*)

A. Openness to Foreign Investment

GOVERNMENT'S ATTITUDE TOWARDS FOREIGN INVESTMENT

After eight year of decline following independence the Ukrainian economy began growing in late 1999 and has been growing steadily since. Ukraine's GDP grew 4.8% in 2002 and 7.1% January-April of 2003. Growth is expected to slow to 4.7% by the end of the year.

Over the past few years, Ukraine has liberalized its markets, reduced regulation, eliminated most licensing requirements, eliminated most restrictions on foreign exchange and transformed the agricultural sector from state-run farms to private agriculture. After years of hyperinflation and plummeting currency values, the national currency, the Hryvnia, has been stable against the U.S. dollar for three years. Much remains to be done to achieve full economic liberalization. Ukraine's economy is still shackled by corruption, poorly developed rule of law, over-regulation and excessive government interference in what should be private business decisions.

Over the past year Ukraine made notable progress in its WTO accession. In February 2003, Ukraine's WTO working party in Geneva agreed to start drafting "the elements" of the final accession report. The pace of accession will depend on how quickly Ukraine adopts and implements WTO-compliant laws and regulations. The Rada in 2003 comprehensively amended Ukrainian laws to ensure compliance with WTO trips requirements. Next year's presidential election may slow the process. Ukraine's next WTO working party meeting is likely to occur in fall 2003.

Foreign investors express little confidence in the Ukrainian court system. Ukrainian courts tend to strike down or ignore contractual provisions for international arbitration or that assign legal responsibility for dispute resolution to a foreign court. Ukraine passed a law on the enforcement of foreign court decisions, but it has not resulted in appreciable changes.

The greatest number of investor complaints involve the State Tax Administration and selective enforcement of

tax policy. Businesses say that STA uses its investigative authority to advance political or business interests.

MAJOR LAWS/RULES AFFECTING FOREIGN INVESTMENT

Ukraine's law "On Foreign Investment Regime" (1996) provides for equal treatment of foreign Ukrainian-owned business with some restrictions in publishing and broadcasting. Foreigners are prohibited from participating in the manufacture of weapons or alcoholic spirits. A February 2000 Law of Ukraine "On Removal of Discrimination in Taxation of Business Entities Founded with the Participation of Domestic Property and Funding" cancelled privileges granted to joint ventures by Ukrainian legislation with retroactive force. A January 2002 Law "On Amending Certain Laws to Avoid Tax Evasion by Enterprises Founded with the Participation of Foreign Investors" cancelled all government and court decisions providing certain privileges to JVs (also with retroactive force). A January 29, 2002 Constitutional Court decision and a May 14, 2002 State Tax Administration letter caused the two laws to go into force and confirmed that tax privileges for joint ventures with foreign participation had been cancelled.

Investment incentives can be offered through special economic zones (SEZ) and areas of priority development (PDA), discussed below. The future of the SEZs is uncertain. Existing ventures in FEZs are having their privileges revoked. The GOU is implementing "The National Program Stimulating Development of Small Business in Ukraine".

The parliament has passed and the president has signed a new Civil Code and at the same time a competing and incompatible Commercial Code. Both laws go into effect on January 1, 2004. Lawyers and judges are now grappling with how to implement the two conflicting laws.

On October 25, 2001 the Ukrainian Parliament passed a Land Code. The Land Code provides for private ownership of land but introduces a moratorium on trading in land until 2005. Individuals cannot sell more than a total of 100 hectares of land between 2005-2010. The Land Code has a 20-year moratorium on land sales to foreigners, though foreigners may own land plots on which company facilities have been built. Such restrictions may delay the development of a functioning land market, but the overall picture is not entirely negative. There is an active market in land leasing. A July 2002, law "On Grain and the Grain Market in Ukraine," established investment, credit, tax and custom policies favorable for the grain market.

In recent months, severe weather badly damaged the winter wheat crop and interfered with spring re-planting efforts. Grain prices rose and the office of the procurator general opened hundreds of criminal investigations against grain traders and other agricultural entities and the government of Ukraine announced the March 24 arrest of former deputy prime minister Leonid Kozachenko. Some voices in Ukraine suggested that stronger administrative controls over the grain trade would be necessary, but the Ukrainian Cabinet of Ministers issued a formal resolution in support of maintaining and expanding market-based agricultural sector reforms.

A new Customs Code went into effect January 1, 2003, codifying uniform customs procedures for all goods, specifies elements of customs procedures, and creating a mechanism for submitting a preliminary declaration for customs clearance for those who declare items on a regular basis. The Code widens the powers of the State Customs Service (SCS), granting its staff free access to the companies' premises where commodities subject to customs clearing are stored. It gives the SCS the power to check foreign trade companies' financial and economic performance.

On July 1, 2001 the law "On the Customs Tariff of Ukraine" took effect under which only the Parliament (Rada) can introduce or change tariffs. The import tariff system of Ukraine has 21 sections, encompasses 97 groups of goods, and lists over 10,000 import duty rates. Import duty rates for most goods, except for farming goods, food and excisable goods, are established at levels accepted by GATT/WTO.

In September 2001 a law "On the Amendments to the Law of Ukraine 'On Unified Customs Tariff which is Charged at the Border Checkpoints'" entered into force. Border checkpoints now collect uniform customs duties combining seven import fees - customs clearance, sanitary, veterinary, phytosanitary, radiation, ecological control, and a vehicle use fee - into a single tax. Non-residents entering Ukraine's territory by car are exempted from any payments.

FOREIGN PARTICIPATION IN PRIVATIZATION

A transparent privatization law provides for the cash sale of majority shareholdings in a number of strategic

enterprises, more open bidding procedures, and the use of financial advisers to assist Ukraine's State Property Fund (SPF). In practice, however, the privatization process is not very transparent. Privatization rules apply to foreign and domestic investors, and in theory a relatively level playing field exists. Foreign participation in privatization is limited for certain "strategic" enterprises (radio, television, energy, and insurance). Foreign shares of TV and radio broadcasting and publishing companies generally may not exceed 30%. The Rada may lift legislative restrictions on foreign ownership in specific instances and has done so on occasion.

GOVERNMENT ROLE IN THE ECONOMY

There has been extensive deregulation progress, though there are still problems. Mass privatization of small- and medium-scale enterprises was completed in 1999. These enterprises, now in private hands, contribute significantly to economic growth. However, the April 2001 privatization of six electricity distribution companies (oblenergos), which included two purchases by a U.S. investor, was the first and only large-scale privatization carried out according to international standards. Other large-scale privatizations conducted since early 2000 have been marked by unclear, non-transparent and changing regulations and by heavy political interference. Problems include: a weak legislative base without clear procedures for selling state property; the absence of political will to overcome vested interest; parliamentary resistance; a generally poor investment climate; and stringent investment requirements. Lack of clear regulatory control limits the Government's ability to privatize attractive enterprises in several strategic sectors. Ukrainian, and increasingly Russian, business interests use the weak institutional setting to circumvent privatization rules. 2002 was a disaster for the State Property Fund. Privatization of large energy and telecoms firms were cancelled and the Fund collected only US\$113 million vs. over US\$ 1 billion budgeted. The GOU is forecasting privatization receipts for 2003 at UAH 2.1 billion (US\$393 million).

PROCUREMENT

Ukraine is not a signatory of the WTO Agreement on Government Procurement but is negotiating WTO accession. A March 2000 government procurement law gives priority to Ukrainian bidders for the purchase of goods and services and providing a 10% differential to domestic bidders over foreigners in certain cases. Purchasing practices vary and include open and closed tenders. To avoid abuses in strongly concentrated areas of industry, the GOU relies primarily on open tenders. Personal contacts and politics, however, remain important. Investors complain about a lack of advance notice of rules and requirements for tenders, covert preferences in tender awards, awards made subject to conditions not defined in initial tender announcements, partiality towards domestic investors and an inability to resolve grievances and disputes. The American Chamber of Commerce in Kyiv has reported many firms were reluctant to pursue GOU procurement opportunities out of fear of being unable to collect payment.

A production sharing agreement law, effective October 1999, provided a legal framework guaranteeing that the terms of agreements between foreign investors and the GOU for natural resources development could not be changed once an investment is made. Special tax provisions apply, but this key law is not yet fully implemented.

EXPORT SUBSIDIES

Government-endorsed monopolies, indirect subsidies in the form of tax preferences, selective enforcement of regulations and tax laws result in an unequal playing field and a vast shadow economy. While direct subsidies have declined, indirect subsidies, including subsidized energy prices, tax forgiveness, and free or below-cost government inputs, have not.

ANTI-COMPETITIVE ACTIVITY

According to an IFC Survey of Ukrainian Businesses, unfair competitive practices are a leading barrier to doing business in Ukraine. Problems arise from competitors in the shadow economy (who do not pay taxes fully, for example) and privileges given businesses favored by local authorities.

Ukraine's antimonopoly committee implements antimonopoly, competition, and consumer protection legislation under the March 2002 the Law "On Protection of Economic Competition. New companies and mergers/acquisitions face strict controls. Most investments, joint ventures with multiple partners, and share acquisitions require the committee's approval. The anti-monopoly committee recorded 210 violations of the antimonopoly legislation in 2002, which is 21.4% more than in 2001. This included 66 cases of anti-

competitive agreements between companies, up from 44 in 2001. The law requires that the Committee obtain a court order before entering private property. Offenders of fair competition rules may be fined up to 10% of the prior year's turnover. If illegally gained profit exceeds 10% of income, up to three times the normal penalty can be collected.

B. Right to Private Ownership and Establishment

The Constitution of Ukraine guarantees the right to private ownership, including the right to own land. A new Land Code consistent with the Constitution was adopted on October 25, 2001. The Land Code provides for foreign ownership of non-agricultural land and clarifies the rights of foreign investors.

The major provisions of the Land Code address the right of individuals to own, buy and sell land. It classifies land into seven categories, based on potential use including agricultural, industrial and natural reserve lands. The mix of state control and ownership rights varies with each type of land. It is easier to own, buy, sell and mortgage industrial than agricultural land. The Code forbids the sale of land until 2005, and restricts the land ownership of any one legal entity (Ukrainian citizen or Ukrainian-based business) to no more than 100 hectares until 2010. The Land Code prohibits foreigners owning agricultural land. The creation of a legal Ukrainian-registered business to purchase and manage land in Ukraine is not prohibited. The Land Code codifies the state's right to oversee private land transactions via registration, the court system and dispute mediation and broad government/state rights to "influence" the land market. On June 5, 2003 the Ukrainian Rada adopted a new law on mortgages. The law allows the use of agricultural land as collateral and spells out foreclosure and eviction procedures. Implementation of the law may take several years. USAID sponsors a land titling initiative aimed at providing technical assistance both to reduce the cost of agricultural land titling and to provide direct support for the issuance of land titles. Since passage of the decree, 3.3 million land titles out of a possible 6.7 million were issued by June 1, 2003.

Ukraine's Law on Ownership recognizes private ownership and includes Ukrainian residents, foreign individuals, and foreign legal entities among those entities able to own property in Ukraine. It permits owners of property (including foreign investors and joint ventures) to use property for commercial purposes, to lease property, and to keep the revenues, profits and production derived from its use. The Law on Ownership is not comprehensive and mechanisms for the transfer of ownership rights is weak. Some difficulties have arisen over foreign acquisition of majority control of enterprises, with the government or the current management continuing to exercise effective control of company decisions.

C. Protection of Property Rights

MORTGAGE

In late 2002 and earlier this year, Ukraine adopted laws on Withholding Land Shares in Kind and a Law on Mortgages. The World Bank will assist Ukraine in developing the cadastre. Currently some mortgages are issued under a June 1999, Presidential decree permitting mortgages on land and buildings, both private and commercial. However, banks are reticent to provide financial backing for the purchase of real or personal property. While the use of mortgages in Ukraine remains limited by the scarcity of issued titles and limits on lending activity, apartments, houses, office buildings, other types of buildings, and dacha plots have secured mortgages. USAID has been instrumental in the creation of a pledge registry, the first of its kind in the former Soviet Union, which applies to individuals' obligations with regards to movable property and tax liens. Though rudimentary, the registry is nationwide, providing a more transparent lending market for personal property.

IPR

Ukraine's protection of intellectual property rights (IPR) remains uneven. Ukraine is a member of the World Intellectual Property Organization and a signatory to a number of international agreements and conventions, and has passed a large number of laws aimed at strengthening the protection of intellectual property. However, the legislative framework still contains loopholes, and enforcement of existing legislation is weak. In 1999-2000, Ukraine was Europe's largest exporter of pirated CDs, and as of March 2001, the U.S. Trade Representative designated Ukraine a Priority Foreign Country under the Special 301 provisions of the U.S. Trade Act of 1974

The USTR in 2002 imposed trade sanctions on Ukraine because of failure to pass an effective law to license

and regulate the manufacture of CDs and other optical media. Ukraine has made some progress in stopping the manufacture of illegal products, but it remains a major transit country for pirated material imported from Russia and shipped elsewhere to Europe. Ukraine's CD Licensing Law still needs to be amended to create a legal base for effective licensing and enforcement. If the law is amended and the right enforcement regime put in place, the USG could review lifting sanctions.

Trademark piracy is a common problem for domestic and foreign companies with well-known consumer brand names. Companies cannot expect law enforcement bodies to be pro-active in combating trademark piracy. Customs procedures for the registration of goods containing intellectual property can be burdensome. In addition, state agencies have been known to resell seized products as a source of revenue.

Despite these problems, support for needed changes is gradually growing within the government, the parliament and in society at large. The U.S. Government has supported Ukraine's efforts to bring its legislation in line with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) requirements for WTO membership. A law designed to bring all laws into compliance with the TRIPS requirements passed in spring 2003. U.S. IPR experts have concluded that the bill fulfills the TRIPS requirements. It is too early to tell how effectively the law will be enforced.

D. Performance Requirements / Incentives

PERFORMANCE REQUIREMENTS

There are no known cases of performance requirements imposed on foreign investors other than those clearly spelled out in privatizations conducted via open tender.

INVESTMENT INCENTIVES

Ukraine modified its foreign investment law of 1996 to provide foreign investors a number of state guarantees, the most important being the unhindered and immediate repatriation of profits and stable regulations for the time of the investment. Foreign investors are exempt from customs duties for any in-kind contribution imported into Ukraine for the company's charter fund. Some restrictions apply and import duties must be paid if the enterprise sells, transfers, or otherwise disposes of the property.

VISA/WORK PERMIT REQUIREMENTS

Businesspeople are required to have valid visas while traveling to and from or residing in Ukraine.

Businesspersons may not extend their visas in Ukraine. U.S. citizens do not have to return to the U.S. to renew their visas - they may apply for and pick up a visa at any Ukrainian Embassy outside of Ukraine. Most go to neighboring Poland, Germany, or the Czech Republic. All foreigners - except those with permanent residency status - are required to have a work permit to work in Ukraine. The laws of Ukraine ¹On Population Employment and ²On the Legal Status of Foreigners define the procedures for obtaining a permit at the State Employment Service. There is one exception, the Law of Ukraine ³On Production Sharing Agreements, ⁴ allows foreigners under such agreements to be hired without permits.

In May 2002, the GOU cancelled a regulation limiting the term of foreign nationals' work in Ukraine to four years and requiring a 6-month break before starting a new term. Work permits may be issued for one year and can be extended before the end of the term. Employers must notify employment centers, police and the State Committee for Border Protection three days before revoking contracts with foreign nationals.

Foreigners residing in Ukraine must register with the government. Effective July 1, 2002, foreigners entering Ukraine will be registered automatically by the State Committee on Safeguarding Ukraine's Border at border checkpoints. Foreigners legally coming to Ukraine for short periods no longer need to register at Internal Affairs Ministry Offices.

E. Transparency of the Regulatory System

TRANSPARENCY OF REGULATORY POLICIES

While there has been progress on deregulation the number of regulations, required certificates, and inspection

regimes in Ukraine impose a significant regulatory burden on private enterprise. The State Committee for Regulatory Policy and Entrepreneurial Activity (SCRPEA), according to Ukrainian legislation, is to review all proposed new laws, ministerial decrees, and regulations before they are adopted to determine possible impact on entrepreneurial activity.

In July 2000, the GOU adopted detailed procedural and methodological recommendations for preparation of regulatory impact (cost-benefit) analyses for every newly proposed regulatory act; dissemination of proposed texts of all new regulations to interested parties, and an opportunity for public hearings and comment before adoption. USAID has been providing training to help with the implementation of the acts.

BUREAUCRATIC PROCEDURES

While the time and costs related to business registration have been reduced, the GOU still requires enterprises to obtain numerous permits to conduct business. Procedures are complex, unpredictable, burdensome, and duplicative creating confusion, increasing the cost and time to do business in Ukraine, providing opportunities for corruption, and driving business into the shadow economy. With initiative from local (municipal) governments and support from USAID, "One-stop Registration Shops" have been introduced in several cities. Some cities also started to apply one-stop concepts to the issues of land use and other permits.

LICENSING

A Law "On Licensing Certain Types of Economic Activities" of June 2000 (and amended on January 17, 2002) provides which activities are subject to licensing. Businesspeople continue to cite burdensome licensing requirements as major impediments to commerce in Ukraine. Fees are described as high and compliance burdensome, particularly for telecommunications equipment. Laws favor domestic producers and traders of ethyl, cognac, and fruit alcohol, spirits, and tobacco.

RULEMAKING

A Cabinet of Ministers resolution on Procedures for Adoption of Regulatory Acts, signed in July 2000, outlines procedures for approving draft regulations relating to entrepreneurial activity by SCRPEA.

INSPECTIONS

A 1998 Presidential Decree restricts entities' authority to conduct financial inspections to one planned inspection per year and requires a minimum of 10 days notice. Non-financial inspections continue to be used as a means of harassment and are major impediments to doing business in Ukraine. Some inspections are politically motivated.

CERTIFICATION/HEALTH AND SAFETY POLICIES

Technical standards and certification requirements are imposed on many imports. The certification body is the State Committee for Standardization of Ukraine ("Derzhstandart). Although Ukraine belongs to several international standardization bodies, such as the International Standards Organization (ISO), it generally fails to recognize foreign product certificates, even if issued in line with international standards, unless recognition is mandated through an international treaty signed by Ukraine. Procedures can be lengthy, burdensome, and expensive and standards are vague, inflexible, and subject to frequent changes.

Numerous certification bodies operate independently without coordination or oversight. Local, regional, and municipal authorities often require additional documentation beyond that required by certification bodies. As of June 2002, DerzhStandard had a network of 142 accredited certifying bodies and 824 testing laboratories (centers) throughout Ukraine. Each center was responsible for testing a particular item. Companies seeking testing should first contact DerzhStandard.

Importers can apply for three types of certificates: a certificate for a single batch of goods; a certificate for one year, which is valid for all imported goods during that year with one or two additional selective tests (this type of certification is the most common in Ukraine, covering 70% of issued certificates); and a certificate for 5 years, for which mandates inspection of production facilities.

Ukraine plans to bring its standardization system into conformity with the European Standards System by

2008. The law "On Assurance of Conformity" is replacing mandatory certification for many types of products with assessment procedures in conformance with international standards and the "New Approach" directives of the European Union, including the principle of "presumption of conformity to standards." On August 1, 2002, National Accreditation Body started operations to ensure the use of standards and procedures consistent with the European Cooperation for Accreditation (ECA) policy.

F. Corruption

Corruption pervades all levels of society and government and all spheres of economic activity in Ukraine. On Transparency International's Year 2002 Corruption Perception Index, Ukraine ranked 85th on the list of the 102 countries. Russia ranked 71st.

Corruption stems from a lack of institutional traditions of transparent decision-making and societal understanding of the importance of corporate governance and transparency. Low public sector salaries -- often as low as USD 20 per month -- fuel corruption in local administrative bodies such as the highway police and tax administration as well as in the education system. Miniscule salaries in the medical system mean that the state guarantee of "free medical care" has been largely supplanted by a system of informal payments where patients are expected to make a "charitable donation" to receive treatment. High-level corruption ranges from misuse of government resources and money laundering to non-transparent privatization and procurement procedures. In short, corruption impacts the daily lives of Ukraine's citizens and important decisions taken at the state level.

Host government prosecution of corruption is based on the law "On Combating Corruption", which was passed in October 1995. The law is rarely enforced, and on the rare occasions it is enforced, it is normally aimed at lower- or middle-level state employees.

Although host government action is still limited, fundamental changes have taken place in the GOU's attitude towards corruption. Gone are the days when GOU officials refused to admit that corruption existed in Ukraine. Government and Rada officials now openly discuss the problem of corruption amongst themselves, with USG contacts, and with the press and public at large. President Kuchma has established a coordination committee for combating corruption and organized crime composed of representatives of the State Security Service, Justice Ministry, Ministry of Internal Affairs, and State Customs Service. With financial support from the International Development Fund of the World Bank, the GOU will implement the Dialogue for Reforms project, aimed at increasing transparency of government activity and introducing mechanisms for public consultations.

RULE OF LAW

As discussed above, improvement of the ability of investors to protect their property and contractual rights is crucial to the investment climate. The judicial system needs to be reformed and made more independent. Enforcement of court decisions is also lacking.

G. Labor

LABOR AVAILABILITY

Ukraine has a well-educated and skilled labor force with nearly a 100% literacy rate. The official unemployment level is low, 3.9 percent as of June 2003, but these figures are misleading. Most experts agree that reported unemployment is understated (with the real unemployment rate closer to 11 percent).

WAGES

Wages in Ukraine are very low by Western standards. The nominal average monthly wage in Ukraine was UAH 376.4 in May 2003 reached UAH 439, (\$85 roughly). The highest wages are in the financial and credit sectors while the lowest wages were paid to agricultural workers.

LABOR/MANAGEMENT RELATIONS

Ukrainian workers are generally accustomed to "top-down" management practices and therefore fail to demonstrate initiative. A younger, more independent-minded generation is slowly moving into the workforce, and it is becoming easier to find personnel that function independently.

Although investors may encounter resistance to trimming the work force to an efficient level, absolute demands (to maintain employment levels) are fading. Ukrainian enterprises still maintain much of the social infrastructure of their immediate community (schools for local children, cafeterias, and medical facilities). While many local officials are willing to work with businesses to identify social services that an enterprise must support, such arrangements should be clearly spelled out before investments are started.

MINIMUM WAGE

The minimum monthly wage now stands at UAH 185 and will be increased to UAH 237 in December 2003. According to Ukrainian legislation, the minimum wage is adjusted whenever consumer price increases reach 5%.

PAYROLL TAXES

Payroll taxes (both employee-paid and employer-paid) total over 40% as follows:

TYPE OF PAYROLL TAX	PAYER/PERCENTAGE	CAP
Pension Fund	Employer 32.0%	UAH 1,000
Pension Fund	Employee 2.0%	UAH 1,000
Temporary Disability Fund	Employer 2.9%	UAH 1,000
Temporary Disability Fund	Employee 0.5%	UAH 1,000
Unemployment Fund	Employer 2.1%	UAH 1,000
UNEMPLOYMENT FUND	EMPLOYEE 0.5%	UAH 1,000

The Temporary Disability Fund and Unemployment Fund form part of the Social Security Fund.

H. Capital Markets and Portfolio Investment

BANKING

The Ukrainian banking system consists of the National Bank of Ukraine (NBU) and commercial banks. The NBU is responsible for monetary circulation, registration of commercial banks, and oversight of their activities.

The banking sector plays a minor role in Ukraine's economy. Bank capital is less than 5% of GDP. Total bank assets in Ukraine are about UAH 63.8 billion, with total loan assets of UAH 46.7 billion and a cumulative capital base of UAH 9.98 billion. Average bank deposits in commercial banks account for only 19.1% of GDP, putting Ukraine in the "poor" category in the standard rankings of deposits. Most banks have a high cost structure and as high net interest margins versus low operating profits. There are 157 banks operating in Ukraine, but a handful of banks dominate the market. The top ten banks control over 52% of the loans outstanding, but represent only 25% of the capital in the system. Loans extended for one year or more account for only 23% of the total loan portfolio in the banking system.

In January 2002, the law "On Banks and Banking Activity" eliminated discrimination against foreign banks. It entrusts the NBU with issuing banking licenses, sets minimum capital requirements, (ranging from Euro 1 million to Euro 5 million) and includes provisions to prevent money laundering. Foreign licensed banks may carry out all the same activities as domestic banks, and there is no ceiling on their participation in the banking system.

In May 2002, most provisions of the law "On Systems of Payment and Money Transfer in Ukraine" came into effect, making payments more flexible and modern, including the use of electronic signatures. In July 2002, a law was passed which established legal principles for the provision of financial services and performance of regulatory and supervisory functions.

Ukraine remains a cash economy, but use of plastic cards is rising.

INSURANCE

Only insurance companies registered in Ukraine may carry out insurance operations. There is a lower minimum capital for domestic insurance companies than insurance companies with foreign shareholders. Foreign insurance companies can invest in local companies, but to operate here they are required to open branch offices.

CAPITAL MARKETS

Legal, regulatory, and financial disclosure systems for the securities market lag behind international standards. Basic market infrastructure exists as does a competent regulator, but the legislative basis for capital market operations is weak. Rulings of the Securities and Stock Market Commission (SSMC) are advisory only and are not always followed by the courts. Investors face low market confidence, high macroeconomic risk, transitional accounting standards, a lack of accurate company information, and inadequate protection of minority shareholders' rights.

The Ukrainian law allows for the following types of securities: stocks (registered, bearer, preferred, and common), government securities, general obligations bonds, corporate bonds, savings certificates, promissory notes, bond coupons, loan certificates, bank orders, savings books and privatization certificates.

According to the SSMSC, there were 147 collective investment institutions, 859 securities traders, 86 custodians, 366 registrars, and 11 self-regulatory organizations (six of which are associations) in 2002. Five stock exchanges were registered in Ukraine. A Ukrainian securities industry broker/dealer self-regulatory organization (SRO) and its nationwide electronic trading system (PFTS) is the largest marketplace with 80% of secondary onshore trading. Market capitalization was USD 1.6 billion at the end of 2001.

Principle laws, decrees, and regulations governing Ukraine's financial markets include: Law on Securities and Stock Exchanges (1991), Law on Business Associations (1991), Presidential Decree on Investment Funds and Investment Companies (1994), Law on State Regulation of Securities Markets (1995), Amendments to Law on Business Associations (1996), Law on National Depository System (1997), Law on Accounting and Financial Reporting (1999), Bankruptcy Law (1999) the Law on Collective Investment Institutions (2001), and the Law on Financial Services (2001).

A law "On Collective Investment Institutions" encourages the creation of mutual funds, introduces the idea of a licensed asset manager, regulates the establishment and operation of subjects of mutual investment, provides guarantees of ownership rights to securities, and protects rights of exchange market participants. Ukrainian Law provides a framework for the circulation of promissory notes in accordance with the Geneva Convention of 1930.

BANKRUPTCY

A January 2000 bankruptcy law provides for debtor-led reorganization, a meaningful moratorium on payment and collection of pre-existing debt and a tax forgiveness provision.

I. Conversion and Transfer Policies

RESTRICTIONS ON CONVERTING/TRANSFERRING FUNDS

The April 1996 Foreign Investment Law guaranteed the unhindered transfer of profits, revenues, and other proceeds in foreign currency after taxes and other mandatory payments. Ukraine's currency, the hryvnia, has floated freely since 2000. The hryvnia has been stable. As of the end of June 2003, it traded against the U.S. dollar at approximately UAH 5.2 to 5.3 to the dollar, approximately the same level as June of 2002.

FOREIGN CURRENCY EXCHANGE

While foreign investors may repatriate earnings, sale proceeds in hard currency received by a purely Ukrainian company are subject to a 50% conversion requirement, and companies must obtain a license from the National Bank of Ukraine (NBU) for some operations. For hard currency being sent out of Ukraine, each transaction over \$50,000 has to be approved by the NBU, and the NBU charges a fee to review the transaction. Foreign exchange is readily available at market-determined rates. Investors may convert their earnings into foreign currency through commercial banks, which purchase foreign currency on the interbank market. Commercial banks may trade foreign currency in electronic form with other banks or participate in electronic currency trading at the Ukrainian Interbank Currency Exchange (UICEX). In November 2001, the NBU limited bank exchange rates to a 5% deviation from the official NBU exchange rate. The range between purchase and sale exchange rates was limited to 10%.

To purchase hard currency, companies must provide their banks with a copy of the foreign trade contract and, if a transaction exceeds USD 10 000, get a permit from State Tax Administration. Commercial banks must announce their clients' intentions to sell on UICEX if the transactions exceeded USD 500,000. Investors must convert half of their foreign currency revenues to the national currency. The law "On the Circulation of Promissory Notes" provides an opportunity for payments in foreign currency and issuance and circulation of promissory notes, in accordance with the 1930 Geneva Convention "Providing a Uniform Law for Bills of Exchange and Promissory Notes".

Residents may transfer up to USD 300 abroad without opening a bank account. Illegal trade of hard currency is not a criminal matter but brings administrative penalties.

FOREIGN CURRENCY LOANS

Resident legal entities and entrepreneurs and foreign banks may receive foreign currency loans. The regulations address procedures for loans from non-residents, interest-free credits in foreign currency, and the application of sanctions for currency violations. On December 26, 2001, the NBU revoked permission for companies with no representation in Ukraine to open deposit accounts with Ukrainian banks, but they may open accounts to conduct settlements.

J. Expropriation and Compensation

Under the 1996 Foreign Investment Law, a qualified foreign investor is provided guarantees against nationalization, except in cases of national emergencies, accidents, or epidemics. International institutions recommend that definitions of expropriation and nationalization in the foreign investment law and bilateral treaties be expanded to include indirect and creeping expropriation. Courts can determine whether owners of privatized enterprises failed to pay for an enterprise or to implement investment commitments in a privatization sale. Failure to pay or invest allows the GOU, with court permission, to revoke ownership and resell the property.

K. Dispute Settlement

EXTENT AND NATURE OF INVESTMENT DISPUTES

The Embassy provides advocacy on behalf of U.S. investors. Frequently, investment disputes involve key problems with the investment climate such as the lack of adequate rule of law, fair and impartial dispute resolution mechanisms, enforcement of domestic court and international arbitration decisions. Another problem is poor corporate governance (inadequate protection for shareholder rights, inadequate disclosure, asset-stripping, and voting fraud). Dispute settlement remains weak. Most U.S. businesses consider the local and national court systems to be unpredictable and try to avoid them. Commercial contracts may permit the parties to use international arbitration courts to settle disputes. Though Ukrainian legislation recognizes international arbitration decisions, in practice such decisions are very difficult to enforce in Ukraine.

Corruption lies at the heart of many investor disputes. Laws and regulations are vague, with considerable room for interpretation, providing officials at every bureaucratic layer ample opportunities for corruption. Foreign investors are often seen as competitors of local firms and their government sponsors.

DESCRIPTION OF UKRAINE'S LEGAL SYSTEM

Ukraine has a civil law system relying on codes and separate acts. The court system has constitutional courts and courts of general jurisdiction. The general courts include courts designated by administrative level (rayon, oblast, and supreme) and by specialization. The courts of general jurisdiction review and settle civil, criminal, and administrative cases while specialized "Arbitrazh" (arbitrage) courts review business disputes, bankruptcy, and anti-monopoly cases. Despite their name, these are commercial courts, not for binding arbitration. The Supreme Court of Ukraine is the highest court within the general courts system. Ukraine's Constitutional Court interprets the Constitution and laws of Ukraine.

The law "On the Judiciary", in force as of January 1, 2003 creates five levels of courts -- local courts, courts of appeal, courts of cassation, higher specialized courts, and the Supreme Court -- as well as an independent judicial department to manage to court system rather than the Ministry of Justice). Although the law does increase the independence of the judiciary, in some cases it increases the powers of the President.

ENFORCEMENT OF RIGHTS

Investors criticize Ukraine's legal system for burdensome procedures, unpredictability, political interference, corruption, and inefficiency. Even when they obtain favorable decisions, investors claim they are rarely enforced.

The *Law on Acknowledgment and Execution in Ukraine of Decisions of Foreign Courts* provides for execution of court decisions of those countries with which Ukraine has signed international treaties. The law covers foreign court decisions in civil, labor, and family cases; sentences in criminal cases in terms of reparation of damages to victims; and decisions of foreign arbitration courts. Laws *on the Order of Executing Decisions of the European Court for Human Rights* and *on Executive Implementation Procedures* show an encouraging trend toward conforming Ukraine's legal system with international norms.

COMMERCIAL LAW

The Parliament has passed and the president has signed a new Civil Code and at the same time a competing and incompatible Commercial Code. Both laws go into effect on January 1, 2004. Lawyers and judges are now grappling with how to implement the two conflicting laws. The Civil Code addresses private ownership protection and freedom of contract and entrepreneurship and provides a unified framework for economic regulations alongside legal reforms such as the Land Code and draft Joint Stock Company Law and Tax Code. It also establishes rules for property relationships (including intellectual property) and creates a level playing field for entry and operation of business entities.

CRIMINAL LAW

A new Criminal Code became effective in September 2001. It replaced the death penalty with life-imprisonment and introduced new economic crimes such as copyright infringements and illicit use of trademarks.

CORPORATE GOVERNANCE

Problems in corporate governance in Ukraine involve corporate ownership, shareholder rights, transparency, and disclosure. The laws *on Enterprises* and *on Companies* offer scant protection for minority shareholders against insider dealing, asset stripping, profit skimming, and share dilution. In December 2002, the Company law was amended to completely obviate the rights of minority shareholders. Corporate finance is restricted and the lack of a company register breeds a lack of transparency. Some examples of shareholder rights abuses include limited disclosure, capital restructuring without shareholders' consent, and shareholder voting fraud.

BINDING INTERNATIONAL ARBITRATION

Ukraine enacted an international commercial arbitration law in February 1994, which parallels commercial arbitration laws set forth by the United Nations Commission on International Trade Law. Ukraine is a member of the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitration Awards.

Some investors have problems enforcing foreign arbitration awards in Ukraine. Foreign arbitral award enforcement procedures in Ukraine are regulated by a number of statutes and regulations, including the laws *on Commercial Arbitration* and *on Enforcement Proceeding*.

ICSID MEMBERSHIP

In early 2000 Ukraine ratified the Washington Convention, providing for use of the International Center for Settlement of Investment Disputes (ICSID), an internationally recognized mechanism for resolving investment disputes between investors and the GOU. The U.S.-Ukraine Bilateral Investment Treaty (BIT), signed in November 1996, recognizes arbitration of investment disputes before the ICSID, but international arbitration under the BIT is a tool of last resort and impractical for everyday problems.

L. Political Violence

Political demonstrations with some violence occurred early in 2001, but the situation has generally been relatively calm since then. The demonstrations were directly tied to the political scandals surrounding the

Presidency. Subsequent demonstrations against the President in the fall of 2002 and March 2003 were peaceful. The likelihood of widespread politically inspired violence that would affect foreign property interests remains relatively low.

M. Bilateral Investment Agreements

BILATERAL INVESTMENT AGREEMENTS

The Bilateral Investment Treaty between the United States and Ukraine came into force on November 16, 1996. The following countries have also signed bilateral investment agreements with Ukraine: Austria (1996), Argentina (1995), Armenia (1994), Azerbaijan (1997), Belarus (1995), Bulgaria (1994), Canada (1994), Chile (1995), China (1992), Cuba (1995), Croatia (1997), the Czech Republic (1994), Denmark (1992), Egypt (1992), Estonia (1995), Finland (1992), France (1994), Georgia (1995), Germany (1993), Greece (1994), Indonesia (1996), Iran (1996), Israel (1995), Italy (1993), Hungary (1995), Kazakhstan (1994), Kyrgyzstan (1993), Latvia (1997), Lebanon (1996), Lithuania (1994), Macedonia (1998), Moldova (1995), Mongolia (1992), the Netherlands (1994), Poland (1993), Russia (1998), Slovakia (1994), Slovenia (1999), South Korea (1996), Spain (1998), Sweden (1995), Switzerland (1995), Turkmenistan (1998), Turkey (1996), UK (1993), Uzbekistan (1993), Vietnam (1994), Yugoslavia (2001), Yemen (2002).

N. OPIC and Other Investment Insurance Programs

STATUS OF OPIC OPERATIONS IN UKRAINE

The Overseas Private Investment Corporation (OPIC) does not currently provide financing or insurance for projects in Ukraine. The U.S.-Ukraine OPIC Agreement was signed in Washington on May 6, 1992. OPIC is currently in negotiation with the GOU to recover monies paid out to a U.S. claimant whose investment was expropriated. OPIC's support of future projects in Ukraine will depend on progress in resolution of this dispute.

EXPORT-IMPORT BANK

On July 20, 2002 the Board of the U.S. Export-Import bank opened up their facilities for short and medium-term (up to seven years) lending for commercial, and sub-sovereign projects.

MULTILATERAL INVESTMENT GUARANTEE AGENCY

The Multilateral Investment Guarantee Agency (MIGA) is an independent member of the World Bank Group, which provides guarantees against political risk to foreign investors in connection with new investment in developing member countries. Forms of investment that can be covered by MIGA include equity, loans, loan guarantees, and loans made by financial institutions (as long as MIGA is also insuring part of the foreign equity in the project enterprise). Certain non-equity direct investments may also be eligible such as technical and management contracts and franchising and licensing agreements.

O. Foreign Trade Zones / Free Ports

As of May 2002, there were 11 Special Economic Zones (SEZ) and 9 priority development territories (PDT), offering tax and import duty exemptions and other benefits to encourage investment and production of goods for export. They differ by tax concessions granted. FEZs mandate privileges for 10 to 30 years (depending on the investment). Priority Development Territories (PDT) do not have independent customs borders. There is a moratorium on creation of new SEZs, which Ukrainian officials say will be extended until 2005. The IMF and World Bank have suggested that the zones be eliminated and have advised the government to focus instead on improving the overall investment climate in the country. The GOU has canceled some previously granted privileges, but formidable regional political interests are likely to prevent closure of FEZs.

FREE PORTS

Porto-Franco in Odessa has the status of a free port.

In total, Ukraine has 19 seaports and 10 river ports located on the Black Sea, the Sea of Azov, and the Danube, Yuzhniy Bug and the Dnieper rivers. They are currently under the authority of the Ministry of Transportation's Department of Sea and River Transport. All seaports are state-owned with the exception of a small port that belongs to the Mykolayiv Alumina Plant. All river ports are open or closed joint stock

companies.

P. Foreign Direct Investment Statistics

FOREIGN DIRECT INVESTMENT

As of April 1, 2003, FDI in Ukraine accounted for USD 5.6 billion or USD 117 per capita, one of the lowest levels of FDI in the CIS. . Annual FDI in Ukraine's neighbor, Poland, was nearly 10 times as high. For the first three months of 2003, FDI grew USD 295.8 million reflecting an 18.3% increase compared to the same period of 2002. For this same period in 2003, non-residents withdrew USD 73.3 million. The net FDI increase in 2002 was USD 783.7 million representing a 15.2% drop on a year-to-year basis.

FDI BY COUNTRY

In all, 114 countries invested in Ukraine. Ukraine's major investors include the United States, USD 980 million, Cyprus USD 543 million, the United Kingdom USD 532 million, Germany 414 million, the Netherlands USD 403 million, Virgin Islands 358 million and Russia USD 336 million.

FDI BY INDUSTRY SECTOR DESTINATION

In 2002, 15.7% of FDI went to the food industry (USD 879 million), 15.6% to domestic trade (USD 874 million), 8.5% to machine building and metalworking (USD 476 million), 8.0% to finance, crediting and insurance (USD 448 million), and 7.6% to the transportation and telecommunications industry (USD 425 million).

Q. Tax Issues of Interest to Major U.S. Investors:

TAX TREATIES

The U.S. -Ukraine Tax Treaty went into force June 5, 2000. Every year, the GOU updates a list of offshore jurisdictions to establish restrictions on the deductibility of payments by resident companies to nonresident entities located in offshore jurisdictions. In such cases, only 85% of the amount paid may be deducted or capitalized.

In May 2001, the Cabinet of Ministers approved a resolution On Approval of the Procedure for Exemption of Incomes Generated in Ukraine from Taxation (Tax Deductions) in Compliance with Ukraine's International Agreements on Prevention of Double Taxation. The order exempts from taxation profits of non-Ukrainians who pay taxes on repatriated profits and whose home nations have signed bilateral agreements with Ukraine against double taxation if they submit a document verifying that they reside in a country with which Ukraine has a double-taxation agreement. Without such a document, non-residents' profits of Ukrainian origin are subject to taxation. If a non-resident believes that a tax was exacted on profits exceeding the amount due under an international double taxation agreement, he or she may file a repayment claim with tax authorities from the state where the entity that generated the income is registered.

TAX POLICIES: The most frequent complaints from businesses in Ukraine involve tax administration. One key issue is the administration of refunds to exporters for VAT that has been collected. There is a large backlog of refunds that must be repaid and the GOU is discussing the issue with the IMF. In addition to confusing regulations and a heavy tax burden, investors complain of harassment by tax officials, discriminatory application, and disproportionate penalties. In late 2002, and early 2003 the Rada passed a number of new laws effecting taxes. On December 13, 2002, Parliament approved amendments to the Law on Excise Taxes, doubling the rate on petroleum and striking out certain privileges in SEZs. On December 24, the Rada voted to reform the Enterprise Profits Tax, cutting the corporate tax rate from 30% to 25% and liberalizing provisions for loss carryovers. On May 22, Ukraine, introduced a flat rate of 13% on personal income. On June 19, the Verkhovna Rada lowered the value-added tax rate from 20% to 17%, but exempted agro-businesses and did not further abolish privileges in special economic zones. Budgetary effects of the tax cuts are still being calculated. All new tax provisions become effective January 1, 2004.

Chapter 8: Trade and Project Financing

A. Brief Description of the Banking System

The Ukrainian banking system consists of the central bank - the National Bank of Ukraine (NBU), and commercial banks of various classifications. As at January 1, 2003, 182 banks were registered in Ukraine, including 20 with foreign capital backing (7 of them with 100% foreign capital.) Only two banks are state owned - the savings bank named Oschadny, present all over Ukraine, and the previous External Trade bank, named now UkrExImbank.

The banks with the largest assets are: Prominvest Bank, Privatbank, Ukreximbank, Aval, Oshchadbank, and UkrSotsbank. While the sector is relatively healthy by regional standards, financial intermediation remains weak. As at January 1, 2003, the sector's total assets were equivalent to about USD 12 billion.

Ukraine has one of the most liberal sets of regulations for foreign bank participation in the CIS. Foreigners are permitted fully participate in the domestic banking sector, although they must establish a resident office one year before applying for a banking license. The minimum authorized statutory fund is EURO 10 million, a small sum by international standards. Foreign banks service both their multinational clients and Ukrainian blue chips. The largest foreign banks in Ukraine are Credit Lyonnais (France), Raiffeisenbank (Austria), ING (Netherlands), HVB bank (Germany), and Citibank (USA).

Multilateral banks - the World Bank and EBRD - are active in Ukraine.

Ukrainian banks remain risk-averse: the spreads between lending and deposit rates are high and loans are mainly short-term. The majority of commercial bank loans are for 90 days or less, with most terms being 30 days or less. Total bank lending is estimated at around 17.5 per cent of GDP.

Ukraine's payment system is reliable. All domestic payments - irrespective of the amount - are carried out fully electronically through the clearing center and the 42 branches of the NBU. The average time for payment transfer is between ten minutes and two hours. The transfer of payment orders in foreign currencies is made either through a cover at the foreign partner-bank, or through the NBU's international settlements department. Banking was the first sector in Ukraine to convert to International Accounting Standards (IAS).

Ukraine has adhered to a number of international legal instruments pertaining to international payments via checks, bills of exchange, letters of credit, and collection arrangements. The safest method of receiving payment for U.S. exports is through an irrevocable letter of credit (L/C). To carry out hard currency transactions, a bank has to be authorized by the NBU. Authorized Ukrainian commercial banks are members of SWIFT (Society for Worldwide Inter-bank Financial Telecommunications).

Ukrainian banks, depending on the details of their NBU license (there are approximately 30 separately licensed banking activities), offer the following services: account-keeping in UAH and foreign currencies; domestic and international payments; cash operations; documentary operations; lending; currency conversion; deposits; operations with securities; brokerage services; trusteeship of assets and customer securities portfolios; financing of investments on behalf of owners or trustees of invested funds; consulting and analytical services; precious-metals trading in the Ukrainian market; purchase and sale of currency in the domestic interbank and international markets.

B. Foreign Exchange Controls

Current legislation stipulates that Ukrainian currency is the only legal form of payment on the territory of Ukraine, which may be accepted without limitation for the settlement of debts and obligations. Currency decrees stipulate that individual licenses have to be obtained from the NBU to carry out the following operations:

1. use of hard currency on the territory of Ukraine as a form of security;
2. a resident of Ukraine opening a bank account abroad;
3. a resident making an investment abroad, except in the event of inheritance, the acquisition of shares, or an ownership interest by a resident in a non-Ukrainian legal entity;
4. obtaining or granting of loans in hard currency by a resident of Ukraine, if the amount of the loan is in excess of the minimum levels established by the NBU;
5. making hard currency payments abroad from Ukraine (except instances listed in the following paragraph).

Individual licenses are not required for the following transactions:

1. payments abroad in hard currency, which are carried out by residents in order to fulfill obligations in such currency to non-residents in connection with payment for goods, services, intellectual property rights, and other property rights;
2. payments abroad in hard currency made in the form of interest payments on loans and profits from foreign investments;
3. transfer, upon the termination of investment activities, of hard currency from Ukraine, which had been previously invested in Ukraine.

Currently, the official exchange rate, auction rate, and "street" rate fluctuate at similar levels. According to the Foreign Investment Law, the exchange rate for converting foreign investments into Ukrainian currency is the rate established by the NBU.

C. General Financing Availability

Financing available in Ukraine is mostly short-term. Five years and over resources in hard currencies are provided by International Financial Institutions like the EBRD, World Bank or the IFC, but amounts provided by those non-residents are also insignificant. The majority of commercial bank loans are for 90 days or less, with most terms being 30 days or less. This precludes loans from Ukrainian commercial banks for virtually any transaction. A major problem affecting a wide range of business in Ukraine.

The non-banking sector (insurance companies, leasing companies, mortgage lending, pension funds and other funds) is in the stage of development, and there are no laws (a mortgage law, a leasing law, etc.) in place yet.

D. How to Finance Exports/Method of Payment

Ukraine has adhered to a number of international legal instruments pertaining to international payments via checks, bills of exchange, letters of credit, and collection arrangements. The safest method of receiving payment for a U.S. export is through an irrevocable letter of credit (L/C). To carry out hard currency transactions, a bank has to be authorized by the NBU. Authorized Ukrainian commercial banks are members of SWIFT (Society for Worldwide Inter-bank Financial Telecommunications).

D. E. Types of Export Financing and Insurance Available

1. The **Export-Import Bank of the United States (Ex-Im Bank)**, an independent U.S. Government agency, supports financing of the overseas sale of U.S. goods and services. In Ukraine Ex-Im Bank's cover/support is limited to short and medium-term transactions. For further information, contact:

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F. Types of Project Financing Available

1. The **European Bank for Reconstruction and Development (EBRD)** In Ukraine EBRD is active in its support to the financial sector, small and medium businesses, food production and processing enterprises, municipal and state infrastructure and transport. Special emphasis is put on the energy sector reform and the introduction of energy efficiency technologies in Ukraine. The Bank is also using its unique experience in nuclear sector to improve nuclear safety both in Chernobyl and countrywide. (See section G for EBRD projects.)

Contact information for project proposals and inquiries:

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One Exchange Square
London EC2A 2JN
<http://www.ebrd.com>

Project proposals

How to apply for EBRD finance
Tel: +44 20 7338 7168
Fax: +44 20 7338 7380
Email: newbusiness@ebrd.com
Head of Unit: Bruno Balvanera

(Ukraine contact information may be found in Chapter 11, Appendix G.)

2. The **World Bank** Since 1992, partnership activities between Ukraine and the World Bank have resulted in joint projects that are improving the public and private sectors, raising performance in agriculture and energy, protecting the environment and bolstering the social sector. Today, the Government and the World Bank co-operate on about forty activities, including loans, grants, and economic research.

The 2001 to 2003 Country Assistance Strategy (CAS) for Ukraine aims to assist the government and civil society in carrying out a broad-based poverty-reduction strategy and in attaining job-creating sustainable economic growth. To do so, the strategy directly addresses the institution-building challenges faced by Ukraine, both from the demand (civil society) and supply (government) sides. The strategy seeks to move Ukraine closer to the European Union standards, fostering environmentally-sustainable development. Currently the World Bank has launched the preparation of the new 2004 to 2006 Country Assistance Strategy for Ukraine. The process will be highly participatory and will involve cooperation with a wide range of stakeholders.

For more information contact:

The World Bank Headquarters
1818 H Street, N.W.
Washington, DC 20433 U.S.A.
tel: (202) 473-1000
fax: (202) 477-6391
<http://www.worldbank.org>

(Ukraine contact information may be found in Chapter 11, Appendix G.)

3. The **International Finance Corporation (IFC)** is a member of the World Bank Group. IFC investment activity in Ukraine is focused on the financial sector. Technical assistance operations are provided in privatization, SME and capital markets development.

International Finance Corporation
2121 Pennsylvania Avenue, NW
Washington, DC 20433
USA
For directory service,
call the IFC switchboard at
Tel.: (202) 473-1000
<http://www.ifc.org>

(Ukraine contact information may be found in Appendix G.)

4. The **U.S. Trade and Development Agency (TDA)** offers U.S. businesses a variety of tools to help increase American exports in the face of stiff international competition. Through the funding of feasibility studies, orientation visits, specialized training grants, and various forms of technical assistance, TDA enables American businesses to become involved in the planning stage of infrastructure and industrial projects in middle-income and developing countries. TDA's assistance to the NIS has focused on the funding of feasibility studies, particularly those that create long-term cooperative relationships between U.S. firms and their NIS

counterparts.

For further information, contact:

Daniel Stein, Regional Director
Rachael Turner, Country Manager
U.S. Trade and Development Agency
1000 Wilson Boulevard, Suite 1600
Arlington, VA 22209-3901
Tel: (703) 875-4357;
Fax: (703) 875-4009
E-mail: info@tda.gov
<http://www.tda.gov>

5. The **Western NIS Enterprise Fund**, capitalized with US\$150 million by the U.S. Government, has been fully operational in Ukraine, Belarus, and Moldova since June 1995. The Fund provides equity capital and loans in amounts between US\$500,000 and US\$5 million to small and medium-sized private companies involved in food processing, distribution, construction materials, and other light manufacturing industries. The Small Business Loan Fund, a separate fund managed by Western NIS, makes commercial loans under US\$100,000 to small businesses and entrepreneurs.

Natalie A. Jaresko, President & CEO
Western NIS Enterprise Fund
Schaumburg, IL 60173, USA
150 N. Martingale Road, Suite 830
Telephone: +1 (847) 517-2550
Fax: +1 (847) 517-2551
e-mail: info@wnisefk.com

Mark Iwashko
Western NIS Enterprise Fund
4 Muzeyny Provulok, 3rd Floor, Kyiv 01001, Ukraine
Tel: (380-44) 490-5580; Fax: (380-44) 490-5589

6. The **Eurasia Foundation**, a privately managed grant-making organization established with financing from USAID, supports technical assistance, training, education, and policy programs. The Foundation's Kyiv Regional Office to date has distributed over US\$24 million to several hundred organizations in Ukraine, Moldova, and Belarus. Grant funds are awarded to help organizations build capacity, conduct research and achieve positive, long-lasting results in three broad areas: private enterprise development, public administration and policy, and civil society. Small Business Loan Program (SBLP) is the only lending program operating in Ukraine that offers medium-term financing for businesses requiring less than US\$100,000. It currently operates in partnership with two local commercial banks, VABank and AGIO, to provide medium-term loans to small businesses employing up to 100 people.

1350 Connecticut Ave., N.W., Suite 1000
Washington, DC 20036
Tel: (202) 234-7370; Fax: (202) 234-7377
<http://www.eurasia.org>

Western NIS Regional Office
Kyiv, Ukraine (Serving, Belarus, Moldova, and Ukraine):
55 Bohdana Khmelnytskoho St., 6th Floor
Kyiv 01601 Ukraine
Tel/Fax: 380-44-238-26-96, 246-99-61
e-mail: eurasia@eurasia.kiev.ua
[Office Staff Directory](#)
www.eurasia.kiev.ua

G. Types of Projects Receiving Financing Support

1) European Bank for Reconstruction and Development (EBRD) Projects:

Public utilities and privatization: Financing will be offered for large-scale privatization-related investments as well as smaller private sector investments in power generation and distribution. The Bank is also active in rail and air transportation, areas where both the public and private sectors are involved. The Bank will continue to invest in projects in the municipal service sector with the goal of improving efficiency and changing the state's role from an operator to regulator.

Energy efficiency: In the public sector, the Bank devotes its efforts to projects which can be realized in short order, such as district heating rehabilitation, in cities where there have been visible changes in administrative attitudes towards reform. In the private sector, it will work with cost-conscious companies that exhibit a far-sighted approach to energy-saving and co-generation investments.

SME and banks: The Bank, acknowledging an improvement in management and corporate governance at some of the leading local commercial banks, supports them by providing a wider range of funding facilities, including trade facilitation, and warehouse receipt financing aimed at the increasingly productive agricultural sector. It retains its focus on increasing the banking sector's capacity to meet the long-term financing needs of micro-, small- and medium- enterprises, while gradually beginning to reduce Bank dependence on sovereign guarantees.

Agriculture: This sector represents Ukraine's largest potential comparative advantage. The Bank intends to introduce seasonal working capital finance for the farm and grain trading sectors through warehouse receipt credits during the coming 12 months, while working with strong international private sponsors to promote longer-term credit arrangements for the sale of agricultural equipment.

Nuclear Safety and K2R4: The Bank continues with its role on behalf of the Contributors for the remediation of Chernobyl, and the improvement of nuclear safety through the Nuclear Safety Account and Chernobyl Shelter Fund initiatives.

2) World Bank Projects: Since 1992 the Bank has approved a total of 24 loans and four Global Environment Facility (GEF) grants for Ukraine totaling almost US\$3.4 billion, and a guarantee operation in the amount of US\$100 million.

Public sector reforms are bolstered through a Bank-supported Treasury System Project (US\$16 million.) In addition, new projects in **public sector** are under preparation in support of tax administration and statistics modernization (US\$100 million and US\$30 million respectively).

Two loans have been approved in **agriculture**: the Seeds Development Project (US\$32 million) designed to improve agricultural productivity, and the fully-disbursed Agricultural Sector Adjustment Loan (US\$300 million), which supported trade liberalization, privatization of land and agricultural enterprises, and farm restructuring. Currently the World Bank and the Government are preparing two new projects: the Rural Land Titling and Cadastre Development Project (US\$132 million) and Rural Finance project (US\$200 million)

The Bank's program also includes support for the **energy** sector. The Bank provided two loans – \$15.8 million for a Coal Pilot Project and \$300 million for Coal Sector Adjustment Loan - contributed significantly to efficiency improvements in Ukraine's coal sector. The Hydropower Rehabilitation and System Control Project (US\$114 million) led to the increased production of environmentally clean energy. Kiev District Heating Improvement Project (US\$200 million) and Kiev Public Buildings Energy Efficiency Project (US\$18 million) will help in rehabilitation of existing district heating system in Kyiv and increasing of heat production capacity as well as improvement of energy efficiency in public buildings (schools, hospitals, kindergartens and public administration buildings).

Privatization and financial sector reform have also received strong attention in the program. Enterprise Development Adjustment Loans I and II (US\$310 million and US\$300 million) assisted the government in acceleration and completion of the mass-privatization program and strengthening the capital markets. Recently the World Bank approved a US\$30 million Private Sector Development Loan to increase competitiveness of the Ukraine enterprise sector. The Bank assisted financial sector reform by Financial Sector Adjustment Loan

(US\$ 260 million) and Export Development Project (US\$70 million).

The Bank has devoted considerable resources to the **social sector**. The US\$50 million Social Investment Fund Project to support the development of community-based social services for the most vulnerable groups was approved in late 2001. The US\$60 million Tuberculosis and AIDS Epidemic Control Project is under implementation.

On the **environment** front two Global Environmental Fund projects have been completed satisfactorily. The third (Ozone-Depleting Substances) is under implementation, and another project for conservation in wetland areas was approved in January 2002.

3) US TDA projects:

TDA has financed total 21 feasibility studies in Ukraine. In 2003 TDA has approved funding for studies on Gostomel Air Cargo Hub project (US\$ 408K) and Regional Air Traffic Management project (US\$ 666K.)

Chapter 9: Business Travel

A. Business Customs

Given the fact that "business" in a Western sense is something new to the current generation of Ukrainians, it is difficult to generalize about proper protocol and customs for doing business in Ukraine. The legacy of centralized authority extending back for centuries, bureaucracy, red tape, and an unwillingness to take initiative have been imprinted on the Ukrainian business psyche. Signatures, proper letterhead, stamps of authenticity, and forms (in triplicate) are very important to "getting the job done" in Ukraine - a process which can exercise the patience of even the most experienced international businessperson. For example, a letter authorizing Mr. X to do Y will sometimes be rejected because it does not have "the proper stamp." Foreign companies will often stamp a document in English with an "official" seal, show the stamp to a customs officer or other bureaucrat (who likely cannot read English anyway), finding that this strategy is often successful.

Due to the general lack of knowledge about international business practices and terminology exhibited by most Ukrainians, it is important to take an educational role in business negotiations. Ukrainians can be shrewd and tough negotiators. It is important to be very responsive to one's negotiating partner, even regarding seemingly mindless issues. Visits to factories or other places of business activity in the U.S. can literally be the "picture worth a thousand words," as relatively few Ukrainians have been to the U.S.

The form of business in Ukraine often takes precedence over the substance, making a U.S. partner's approach all the more important. As noted above, given the absence of a strong, transparent legal infrastructure, in the end your deal may depend on the trust you have painstakingly built over many months or years.

As Ukrainians are deeply personal, an extraordinary emphasis is placed on cementing personal relationships before doing business. Face-to-face meetings are the norm, with little business conducted over the phone. Business cards, printed in English and Ukrainian or Russian, are de rigueur, with a firm handshake to open and close a meeting. Long evenings of vodka toasts (moderation is advised) and several-course meals are important in building trust with your Ukrainian partner. Wishing good health, happiness, and success on your partner's immediate family will be certain to bring a smile and a hearty "thank you." Remembering your Ukrainian partner's birthday, child's birthday, and keeping Ukrainian holidays (see subsection C, below) in mind will also be gestures not soon forgotten.

B. Travel Advisory and Visas

All non-CIS citizens need a passport and Ukrainian visa to enter Ukraine. Visas can be obtained in advance from:

ї² [Embassy of Ukraine](#)

3350 M Street, NW, Washington DC 20007

Tel: (202) 333-0606, Fax: (202) 333-0817,

Web site: www.ukremb.com

ї² [Ukrainian Consulates General in New York and Chicago](#)

240 East 49th Street, New York, NY 10017
Tel: (212) 371-5690; Fax: (212) 371-5547
Web site: www.brama.com/ua-consulate
10 East Huron St., Chicago, IL, 60611
Tel.: 312-642 4388, Fax: 312-642 4385
Web site: www.ukrchicago.com

Since May 2000 a letter of invitation from a person, company or organization in Ukraine (or a travel company voucher) has no longer been required for obtaining a visa. U.S. citizens cannot obtain visas at airports or border crossings. CS Kyiv strongly recommends that business travelers secure all documents prior to entering Ukraine. To extend a visa, you must contact the Head Office of the "Visas, Permits, and Passports Department" (VVIR) of the Ministry of Foreign Affairs in Kyiv, Tel: (380-44) 235-4316. Ukrainian visa can be extended not more than three times per stay.

On June 15, 2001, President Kuchma signed a decree abolishing the requirement for foreigners to register with local police and registration officials within 72 hours of arrival. This change enables foreigners to travel throughout Ukraine without having to undergo time-consuming registration procedures. However, it remains unclear how local visa and registration (OVIR) offices will respond, as the bureaucracy seemingly was not drawn into the process and procedures have not been formulated. Until further notice, it may be wise to look to the old system, that stated that all foreigners visiting Ukraine, except those staying less than three working days and minors (under 18), are required to register their passports with local law enforcement authorities. This law is not uniformly enforced, but visitors who do not register may experience delays when leaving Ukraine, or difficulty when trying to extend visas. The Ukrainian Ministry of Tourism is trying to extend the minimum required term for mandatory registration from three to thirty days. The registration requirement is automatically met when foreigners stay in hotels, when resident businesspersons register their businesses, or when students register under established exchange programs. Private visitors must have their hosts, relatives, or landlords register their U.S. passport at the local "Visas, Permits, and Passports Department" (VVIR) of the Ministry of Foreign Affairs. A fee is usually charged for visa extensions or passport registration.

Reportedly Ukraine launched an experiment to simplify its visa regime in Crimea and Odesa, allowing foreign visitors to obtain visa on arrival valid for the period of eight days. However, the vast majority of foreign tourists still arrive in Ukraine through Boryspil airport near Kyiv. In addition, eight days is a relatively short period. Many visitors want to stay longer.

Please note that business travelers who intend to visit Russia from Ukraine must have a valid Russian visa. Obtaining Russian multiple entry visa in Ukraine is very expensive, and costs US\$495 for one day processing, and US\$170 for processing in ten working days. The Consular Section of the Embassy of the Russian Federation in Ukraine is located at: 8 Prospect Kutuzova, Kyiv 01011, Ukraine; Tel: (38044) 296-4504, 294-7797; Fax: (38044) 294-6816, E-mail: visa@rucons.kiev.ua; hours: 9-5 p.m., M-W-F. The address of the Ukrainian Embassy in Moscow is: 18 Leontevsky Provuok; Tel: (095) 229-1079; Fax: (095) 924-8469.

Insurance:

In August 1998, the Ukrainian government issued a decree requiring that all foreign visitors obtain i° emergency medical insurance j_{\pm} from the Ukrainian State Insurance Company. This insurance is not valid at private clinics, but reportedly allows foreigners to be treated in any state hospital without advance payment. Non-emergency service requires 24-hour notice in the form of a phone call to the State Insurance Company. i° Emergency Medical Insurance j_{\pm} is currently available only at major international airports within Ukraine and at certain land border crossings. Fees for insurance range from fifteen to several hundred dollars, depending on the length of stay. Fees are normally accepted in cash and are generally accepted only in U.S. dollars. Enforcement of this insurance requirement is not consistent. This has caused problems for American citizens who were not required to purchase insurance upon entering Ukraine, and subsequently had difficulty registering with the Office of Visas and Registration because they lacked proof of insurance. Many Americans have reported that they are being overcharged for this insurance. Therefore, Americans are advised to carefully review the fee schedule at the insurance booth and pay only the legally established fee.

U.S. medical insurance is not always valid outside of the United States. Those travelers carrying valid overseas insurance coverage are not exempt from the i° emergency medical insurance j_{\pm} requirement by the Ukrainian government.

Crime Information:

Crime in Ukraine is a continuing problem. Westerners and their vehicles and residences are increasingly viewed as choice targets. Pick pocketing, robbery, and other petty crimes are a common occurrence on the mass transit system. There have been a number of documented reports of criminal acts occurring on trains, including gassings and robberies. Therefore, special care should be taken on subways, buses and trams. Economically motivated crimes in Ukraine are on the rise, with foreigners frequently targeted by various criminal elements. The Embassy is aware of a common criminal approach: targets are spotted leaving Western restaurants and bars, then attacked once inside the doorway of their building, which is usually dark. Care should be taken to protect difficult-to-replace documents. Visitors should conduct themselves as they would in any major U.S. city - always be aware of your surroundings, travel in pairs or groups, avoid poorly-lit or isolated areas of the city, and refrain from hailing rides from cars with two or more people already inside.

Consult the current Consular Information Sheet for Ukraine, prepared by the U.S. Department of State, for updates on the crime situation.

C. Holidays

Official 2004 Ukrainian holidays are as follows (subject to confirmation in late 2003):

January 1	New Year's Day
January 7	Orthodox Christmas
March 8	International Women's Day
April 11/12	Orthodox Easter
May 1-2	Labor Day
May 9	Victory Day
June 15	Holy Trinity Days
June 28	Constitution Day
August 24	Independence Day

According to the Ukrainian Labor Code, if a holiday falls on Saturday or Sunday, the day-off is transferred to the following Monday.

Ukrainian time is GMT+2 (Greenwich Mean Time) and EST+7 (Eastern Standard Time). The country observes daylight savings times from the last Sunday in March through the last Sunday in October.

D. Business Infrastructure

Accommodations:

There is a range of hotels in Kyiv, varying in price. Please check and confirm rates at your hotel prior to arrival. If preferred, various agencies in Ukraine can suggest apartment rentals on a daily, weekly, or monthly basis for business travelers. Please be advised that during the winter months heating may not be available in many hotels outside Kyiv. Hot water is generally available in Kyiv hotels and other major cities, but there are periods (two-six weeks during the summer) when the hot water pipes are turned off for cleaning and repairs. In smaller towns hot water is supplied only on by-hour basis, or not supplied at all.

The standard electrical voltage throughout Ukraine is 220 Volts, with continental (two-pronged) outlets. If traveling with U.S. electrical appliances, a plug adapter is necessary and, most likely, a converter as well (unless the appliance states otherwise). Travelers might also want to consider bringing a surge protector, especially for portable computers and other electronic devices.

Clothing:

Business attire in Ukraine is generally formal; for business, dress should be conservative. A suit or dress trouser with blazer and tie is suitable for men, while appropriate dress for women can extend from a suit to dress slacks and blazer. Outside the capital, dress is slightly more casual. In the cooler months, dressing for warmth dictates, especially in regions of Ukraine prone to heating shortages.

Communications:

Ukraine's local telecommunications system has made marked improvements over the last few years, particularly in international, cellular, and mobile communications. International calls can be made from Utel cardphones at a variety of points in Kyiv, including Boryspil airport. To make long-distance calls from Ukraine,

first dial 8, then wait for a new dial tone. International calls require dialing 10, followed by the country code, city code, and number. Ukraine's country code is 380; Kyiv's city code is 44.

Etiquette:

- do not shake hands across the threshold of a door (it is considered bad luck);
- when shaking hands, take off your gloves;
- be sure to have your business cards printed in Ukrainian on one side and English on the other side;
- be prepared to accept all food and drink offered. Ukrainians are known for their generosity when it comes to food; turning down food may be considered rude;
- if you bring flowers, make certain that it is an uneven number of flowers;
- offer to share your cigarettes and snacks with those around you;
- do not put your thumb between your first two fingers - this is a very rude gesture.

Language:

Ukrainian is the official state language of Ukraine. However, Russian is widely used in Kyiv and especially in the cities of eastern Ukraine (to a much lesser extent in western Ukraine). The number of English speakers is growing yearly. Some useful Ukrainian vocabulary to remember is DOBRIY DEHN (hello, good day); DYA-KOO-YOU (thank you); BOOD LASKA (please/you're welcome).

Medical:

Bring prescriptions with you and avoid drinking tap water (bottled water is readily available in major hotels and supermarkets). Long-term visitors may wish to consider bringing a distiller - not a filter - for a constant supply of potable water. Short-term business travelers are unlikely to be affected by increasing reports of diphtheria and cholera, however, it is wise to make sure that all foods and utensils are thoroughly cleaned. Prior to travel, make sure proper immunizations are up-to-date. The U.S. Embassy Medical Unit can provide business travelers with further health information for Ukraine.

Money:

Ukraine is still primarily a cash economy. Travelers' checks and credit cards are gaining wider acceptance in larger cities. Credit cards are accepted at major hotels and Western-style restaurants. However, there is high credit card fraud in Ukraine, so travelers are encouraged not to use credit cards. Bring adequate cash to cover hotel and incidental expenses. We recommend bringing bills in good condition and without tears or writing on them. Rumpiled, torn, and written-on bills are usually not accepted. Official exchange points (called "Obmin Valyut") operate in most hotels and supermarkets. It is illegal to exchange money outside of exchange points, and we strongly discourage doing so.

Currency Regulations:

Customs regulations prohibit sending cash, travelers' checks, personal checks, credit cards, or passports through the international mail system to Ukraine. These items are regularly confiscated as contraband by customs authorities. Travelers must declare all cash and jewelry, regardless of value, upon entering Ukraine. Any undeclared items are subject to confiscation. Additionally, travelers should retain their customs forms, as they will be required to present these forms upon departure from Ukraine. Under customs regulations, travelers may bring up to US\$10,000 in cash into Ukraine without special permission; more than US\$10,000 requires a written statement by the traveler.

Radiation:

Radiation levels in Kyiv and most of Ukraine are considered safe and normal by the U.S. Embassy and other official bodies. Levels are measured daily.

Traffic Safety and Road Conditions:

Roads in Ukraine are in generally poor condition. Travel between cities at night and in winter can be particularly treacherous. Major roads are passable during daylight hours. Roadside services, such as gas stations and repair facilities, exist but are inadequate. Travelers should plan accordingly. Additionally, car jackings of Western-made or foreign-registered vehicles are on the rise.

Ukraine is a zero tolerance country - don't drink and drive!

Transportation:

City transport in Kyiv is cheap, but crowded and slow at times. The Metro (subway/local train) is probably the quickest public transport method. Metro tokens can be purchased at individual stations; monthly passes at transportation kiosks. However, hailing a cab is probably the most efficient form of transportation within the city. Private cars can also be hired for a reasonable price, but most drivers do not speak English. Be sure to agree on a price beforehand. It is becoming customary to order a taxi by phone. The most reliable and comfortable taxis can be ordered by dialing: 0-58, 234-4444, 574-0574, 238-8238.

Rent-a-car service. International trademarks Avis (Tel: 490-9890), Hertz (Tel: 296-7616), and Europcar (Tel: 238-2691) run their operations in Kyiv and Boryspil Airport.

Train travel is the least expensive and most convenient method to reach just about any location in Ukraine. Trains are slow, but generally safe.

Air travel within Ukraine is often unreliable, with unpredictable schedules and service not on par with Western standards. Ukrainian domestic carriers operate Antonov-24 or Yakovlev-40 type aircraft, most of which have been in use for over 20 years. Due to very old air navigation equipment being operated by Ukrainian air traffic service, domestic flights are subject to prolonged delays, especially during bad weather. Direct air service between Ukrainian cities, other than from Kyiv, is unavailable.

The reconstruction of Boryspil Airport has made for a more traveler-friendly environment. However, plan for frustrating delays at passport and customs control points. The number of international airlines operating flights in and out of Kyiv is increasing. Austrian Airlines now has regular direct service between Vienna and Kyiv, Odessa, Dnipropetrovsk and Kharkiv. Of the U.S. carriers, United Airlines operates code-share flights with Austrian Air and Lufthansa; Delta Airlines with Air France; Northwest with KLM, and American Airlines with Swiss Air Lines. Other major international airlines with regular service in Ukraine are: British Airways, Finnair, Malev, LOT, CSA, Turkish Airlines, Aeroflot, and Transaero.

U.S. business travelers are encouraged to obtain a copy of the *Key Officers of Foreign Service Posts: Guide for Business Representatives* available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; Tel: (202) 512-1800; Fax: (202) 512-2250.

Business travelers to Ukraine seeking appointments with the U.S. Embassy Kyiv officials should contact the Commercial Section in advance. The Commercial Section can be reached by telephone at (380-44) 490-4018, fax at (380-44) 490-4046, or email at kiev.office.box@mail.doc.gov

Chapter 10: Economic and Trade Statistics

Population: 47.844 million (as of May 2003)

Population Growth Rate: (-1.8)%

Religions: Orthodox, Ukrainian Catholic (Greek Rite), Roman Catholic, Jewish, Muslim, and others.

Government System: The Head of State is the President, vested with supreme and executive power. In 1994, Leonid D. Kuchma was elected President of Ukraine and in 1999 re-elected for a second five-year term of office. The government (Cabinet of Ministers) is led by the Prime Minister. The superior body of legislation is the Verkhovna Rada (Parliament). In Ukraine, there are 24 administrative regions (oblasts), the Autonomous Republic of Crimea, and two municipalities (Kyiv and Sevastopol).

Languages: Ukrainian (official), Russian (widely spoken).

Work Week: 40 hours per week (normal business hours: 9 a.m. - 6 p.m.)

B. Domestic Economy

	2001	2002	(forecast)
GDP (\$ billion)*	37.61	40.4	43.6
GDP Growth Rate (%)**	9.1	4.1	4.0
GDP Per Capita (\$)	776	839	910
Government Spending (% of GDP)	27.4	27.2	26.8
Inflation (annual %)***	6.1	0.8	6.0
Unemployment (%)	3.7	3.8	4.0
Foreign Exchange Reserves (\$ billion)	3.095	4.628	6.0
Average Exchange Rate (UAH : \$)	5.37	5.33	5.45
Foreign Debt (\$ billion)	10.1	10.2	10.0

Notes:

* at the official UAH : \$ exchange rate

** GDP change denominated in hryvnia adjusted to CPI

*** Consumer Price Index, CPI

C. Trade (\$ millions)

	2001	2002	2003 (forecast)
Total Country Exports	19,809	22,012	22,500
Total Country Imports	16,924	18,508	19,700
U.S. Exports to Ukraine	205	255	300
U.S. Imports from Ukraine	607	406	350

D. Investment Statistics

According to the Ukrainian State Statistics Committee, as of April 1, 2003 the total volume of direct foreign investment into Ukraine since 1992 had reached US\$5.604 billion. The following are the official Ukrainian government statistics for total cumulative direct investment by country of origin from 1992 through April 1, 2003:

Country	(\$ millions)	Percentage
United States	982.4	17.5
Cyprus	541.6	9.7
Great Britain	533.3	9.5
Germany	414.2	7.4
Netherlands	401.1	7.2
Virgin Islands	359.3	6.4
Russia	334.8	6.0
Switzerland	283.5	5.1
Austria	226.1	4.0

Korea	172.1	3.1
Other countries	1,356.2	24.1

The following is an industry breakdown of cumulative investments into Ukraine by the major sectors as of mid-2002:

Industry	(\$ millions)	Percentage
Food Processing	796	18.1
Wholesale and Retail Trade	648	14.7
Financial Services	361	9.5
Chemicals	383	8.7
Construction and Real Estate	361	8.2
Machine Building	348	7.9
Transportation	317	7.2
Communication	308	7.0
Other Industries	823	18.7
Total	4,400	100.0

Chapter 11: U.S. and Country Contacts

A. THE U.S. EMBASSY IN UKRAINE

1. The Ambassador
 John Herbst, U.S. Ambassador to Ukraine
 Marie Louise Yovanovitch, Deputy Chief of Mission
 10, Yuriya Kotsyubinskoho Vul., Kyiv 01901, Ukraine
 Tel: (380-44) 490-4000; Fax: (380-44) 244-7350

Consular Section
 Lisa Vickers, Consul General
 Tel: (380-44) 490-4422
 Fax: (380-44) 236-4892, 216-3393
<http://www.usemb.kiev.ua>

2. Foreign Commercial Service (FCS)
Frank Carrico, Senior Commercial Officer
4, Hlybochytska St., 4th Floor, Kyiv 04050, Ukraine
Tel: (380-44) 490-4018; Fax: (380-44) 490-4046
E-mail: kiev.office.box@mail.doc.gov
3. Economic Section
Necia Quast, Economic Counselor
10, Yuriya Kotsyubinskoho Vul., Kyiv 01901, Ukraine
Tel: (380-44) 490-4000; Fax: (380-44) 490-4277
4. U.S. Agency for International Development (USAID)
Christopher Crowley, Director
19, Nizhnij Val., Kyiv 04071, Ukraine
Tel: (380-44) 462-5678
Fax: (380-44) 462-5834
5. Foreign Agricultural Service (FAS)
Margaret Thursland, Agricultural Attaché
4, Hlybochytska St., 5th Floor, Kyiv 04050, Ukraine
Tel: (380-44) 490-4005; Fax: (380-44) 490-4110
E-mail: agkiev@usda1.sprint.com
6. Public Affairs Section (PAS)
Janet Demiray
4, Hlybochytska St., 4th Floor, Kyiv 04050, Ukraine
Tel: (380-44) 490-4026; Fax: (380-44) 490-4050
E-mail: info@usis.kiev.ua
<http://www.usis.kiev.ua>
7. Peace Corps
Karl Beck, Director
111-a Saksahanskoho, Kyiv 01032, Ukraine
Tel: (380-44) 247-6840
Fax: (380-44) 247-6841

D. U.S. CONTACTS IN THE UNITED STATES

1. U.S. Department of Commerce
International Trade Administration
14th & Constitution Ave., N.W., Washington, DC 20230
U.S. & Foreign Commercial Service
Office of International Operations
Russia/NIS Program Office
Amy Zona, Deputy Director
Tel: (202) 482-5402; Fax: (202) 482-2456

Market Access and Compliance (MAC)
Christine Lucyk, Senior Policy Advisor "C Ukraine
Tel: (202) 482-2018; Fax: (202) 482-4505

Business Information Service for the Newly Independent States (BISNIS)
Trevor Gunn, Director
Michael Considine, International Trade Specialist
Ronald Reagan Building

14th & Constitution Ave. N.W.,
Washington, DC 20230
Tel: (202) 482-4655; Fax: (202) 482-2293 or 1-800/USA-TRADE
E-mail: bisnis@ita.doc.gov
<http://www.bisnis.doc.gov>

Special American Business Internship Training Program (SABIT)
Liesel Duhon, Director

14th & Constitution Ave. N.W., Room 3319
Washington, DC 20230
Tel: (202) 482-0073; Fax: (202) 482-2443
E-mail: SABIT@usita.gov
<http://www.mac.doc.gov/sabit/sabit.html>

Office of Multilateral Development Banks
Janet Thomas, Acting Director
USA Trade Center
Ronald Reagan Building, Mezzanine Level
Washington, DC 20230
Tel: (202) 482-3399; Fax: (202) 482-3914
<http://www.ita.doc.gov/mdbo>

Trade Information Center
14th & Constitution Ave., N.W., Room 7424
Washington, DC 20230
Tel: (800) USA-TRADE or (800) 872-872; Fax: (202) 482-4473
E-mail: TIC@ita.doc.gov
<http://www.infoserv2.ita.doc.gov/tic.nsf>

2. U.S. Department of Agriculture (USDA)

Foreign Agricultural Service
14th & Independence Ave., S.W., Washington, DC 20250-1000
Tel: (202) 720-3935, Fax: (202) 720-7729
E-mail: fasinfo@fas.usda.gov
<http://www.fas.usda.gov>

3. U.S. Department of Energy
1000 Independence Ave., SW,
Washington D.C., 20585
Tel: (202) 586-6641
Fax: (202) 586-0862
<http://www.fe.doe.gov>

4. U.S. Trade and Development Agency (USTDA)
Daniel Stein, Regional Director (NIS)
Rachael Turner, Country Manager
1621 North Kent St., Suite 200, Arlington, VA 22209-2131
Tel: (703) 875-4357, fax: (703) 875-4009
E-mail: info@tda.gov
<http://www.tda.gov>

E. AMCHAM AND/OR BILATERAL BUSINESS COUNCILS

1. American Chamber of Commerce in Ukraine

Jorge Zukoski, President
42-44 Shovkovychna Vul., LL2
Kyiv 01004, Ukraine
Tel: (380-44) 490-5800; Fax: (380-44) 490-5801
E-mail: acc@chamber.ru.kiev.ua
<http://www.amcham.kiev.ua>

2. U.S. "C Ukraine Business Council

Kempton Jenkins, President
1615 L Street, N.W., Suite 900
Washington, DC 20036
Tel: (202) 778-1065, 955-4504
Fax: (202) 466-6002, 955-4506

F. UKRAINIAN TRADE AND INDUSTRY ASSOCIATIONS

Ukrainian Union of Industrialists and Entrepreneurs
34, Khreshchatyk Vul., Kyiv 01001, Ukraine
Tel: (380-44) 224-8346; Fax: (380-44) 226-3152

Union of Small, Medium and Privatized Enterprises
16, Shevchenko Blvd., Kyiv 252601, Ukraine
Tel/Fax: (380-44) 224-1219

International Union of Ukrainian Businessmen
2-v, Pyrohova Vul., Kyiv 01030, Ukraine
Tel: (380-44) 228-3308, 224-9832
Fax: (380-22) 228-8384
E-mail: BD@iuub.freenet.viaduk.net

Association of Entrepreneurs INFOBUSINESS
(Grantee of the Center of International Private Enterprise)
4, Teriokhina, Vul., Kyiv 04080, Ukraine
Tel: (380-44) 435-6694, 435-6474
Fax: (380-44) 435-6581
E-mail: alexei@infb.carrier.kiev.ua
<http://www.users.lucky.net.ua/nfb>

Ukrainian League of Enterprises of the Agro-Industrial Complex
13, Kostyolna Vul., Kyiv 01001, Ukraine
Tel: (380-44) 228-5734; Fax: (380-44) 228-6895
E-mail: root@agroin.freenet.kiev.ua

Chamber of Commerce and Industry (CCI) of Ukraine
33, Velyka Zhytomyrska Vul., Kyiv 01601, Ukraine
Tel: (380-44) 212-2911, 212-2818
Fax: (380-44) 212-3353

G. COUNTRY GOVERNMENT OFFICES

1. Presidential Administration
Leonid Kuchma, President
11, Bankova Vul., Kyiv 01220, Ukraine
Tel: (380-44) 291-5333;

Fax: (380-44) 291 -6161

Volodymyr Medvedchuk, Chief of Staff, Administration of the President
11, Bankova Vul., Kyiv 01220, Ukraine
Tel: (380-44) 291 -5989

2. Cabinet of Ministers

a. Office of the Prime Minister
Victor Yanukovich, Prime Minister
12/2 Hrushevskoho Vul.,
Kyiv 01008, Ukraine
Tel: (380-44) 226-2289, 226-3263
Fax: (380-44) 226-2608, 293-2093
Azarov, First Deputy Prime Minister
Tel: (380-44) 293-0615, 293-4465

Vitaliy Hayduk, Deputy Prime Minister
Tel: (380-44) 254-0619
Fax: (380 44) 293-2459

Ivan Kyrylenko, Deputy Prime Minister
Tel: (380 44) 226-2678, 293-6493

Dmytro Tabachnyk, Deputy Prime Minister
Tel: (380-44) 226-2813, 293-3934

Volodymyr Yatsuba
State Secretary
Tel: (380 44) 226-3210

b. Ministries

Ministry of Agricultural Complex
Serhiy Ryzhuk, Minister
24, Khreshchatyk Vul., Kyiv 01001, Ukraine
Tel: (380-44) 226-3466, 226-3376
Fax: (380-44) 229-8545

Ministry of Culture and Arts
Yuriy Bohutskiy, Minister
19, Ivana Franka Vul., Kyiv 01030, Ukraine
Tel: (380-44) 226-2645
Fax: (380-44) 225-3257

Ministry of Defense
Volodymyr Shkidchenko, Minister
6, Povitroflotskuy Prospect, Kyiv 03168, Ukraine
Tel: (380-44) 234-7152
Fax: (380-44) 226-2015

Ministry of Economics
Valeriy Horoshkovskiy, Minister
12/2, Hrushevskoho Vul., Kyiv 01008, Ukraine
Tel: (380-44) 226-2315
Fax: (380-44) 226-3181

Ministry of Education and Science

Vasyl Kremen', Minister
10, Prospect Peremohy, Kyiv 01135, Ukraine
Tel: (380-44) 226-2661
Fax: (380-44) 274-1049

Ministry of Fuel and Energy
Serhiy Yermilov, Minister
30, Khreshchatyk Vul., Kyiv 01001, Ukraine
Tel: (380-44) 221-4365, 229-9919
Fax: (380-44) 221-4394

Ministry of Environment and Natural Resources
Vsyly Shevchuk, Minister
5, Khreshchatyk Vul., Kyiv 01601, Ukraine
Tel: (380-44) 226-2428, 228-0644
Fax: (380-44) 229-8383

Ministry of Emergency Situations and Chornobyl
Hryhoriy Reva, Minister
55, Honchara Vul., Kyiv 01030, Ukraine
Tel: (380-44) 247-3001/ 247-3026
Fax: (380-44) 247-3144

Minister of Finance
Mykola Azarov, Minister
12/2 Hrushevskoho Vul., Kyiv 01008, Ukraine
Tel: (380-44) 293-7466, 226-2044
Fax: (380-44) 293-8243

Ministry of Foreign Affairs
Anatoliy Zlenko, Minister
1, Mykhailivska Ploscha., Kyiv 01018, Ukraine
Tel: (380-44) 212-8323, 212-8675
Fax: (380-44) 226-3169

Ministry of Health
Andriy Pidayev, Minister
7, Hrushevsky Vul., Kyiv 01021
Tel: (380-44) 253-2472
Fax: (380-44) 253-6975

Ministry of Industrial Policy
Anatoliy Mialytsa, Minister
3, Surikova St., Kyiv 03035, Ukraine
Tel: (380 44) 245-4778
Fax: (380 44) 246-3214

Ministry of Internal Affairs
Yuriy Smirnov, Minister
10, Academica Bohomoltsa Vul., Kyiv 01024, Ukraine
Tel: (380-44) 291-3954, 291-3505
Fax: (380-44) 291-1733

Ministry of Justice
Oleksandr Lavrynovych, Minister
13, Horodetskoho Vul., Kyiv 01001, Ukraine
Tel: (380-44) 229-6664
Fax: (380-44) 229-6664

Ministry of Labor and Social Policy

Mykhaylo Papiyev, Minister
8/10, Esplanadna Vul., Kyiv 01023, Ukraine
Tel: (380-44) 226-2445, 226-2591
Fax: (380-44) 220-0098

Ministry of Transportation
Georgiy Kirpa, Minister
7/9 Shchorsa Vul., Kyiv 03150, Ukraine
Tel: (380-44) 226-2204
Fax: (380-44) 268-1041, 268-2202

c. State Committees

State Committee of Statistics
Oleksandr Osaulenko, Chairman
3, Shota Rustaveli Vul., Kyiv 01023, Ukraine
Tel: (380-44) 226-2021
Fax: (380-44) 235-3739

State Committee for Regulatory Policy and Business Development
Inna Bohoslovska, Chairman
73, Artema Vul., Kyiv 04053, Ukraine
Tel: (380-44) 246-8647, 211-3001
Fax: (380-44) 216-2435

State Communications Committee
Oleg Yatsenko, Chairman
22, Khreschatyk St., Kyiv 01001, Ukraine
Tel: (380 44) 226-2140, 228-1500
Fax: (380 44) 228-6141

State Committee on Construction and Architecture
Valeriy Cherep, Chairman
24, Dymytrova St., Kyiv 03150, Ukraine
Tel: (380-44) 226-2208, 224-3982
Fax: (380 44) 227-2335

State Committee for Energy Conservation
Yuriy Shulga, Head
1 Honty St., Kyiv 04112, Ukraine
Tel: (380 44) 455-5710
Fax: (380 44) 456-8023

National Tourism Administration of Ukraine
Valeriy Tsybukh, President
36 Yaroslaviv Val., Kyiv 01034, Ukraine
Tel: (380 44) 212-4215
Fax: (380 44) 21204277

d. Other Agencies

National Bank of Ukraine (NBU)
Serhiy Tihipko, Governor
9, Instytutaska Vul., Kyiv 01007, Ukraine
Tel: (380-44) 226-2914, 293-5973
Fax: (380-44) 293-1698

State Tax Administration of Ukraine
Yuriy Kravchenko, Head
8, Lvivska Ploshcha, Kyiv 04655, Ukraine

Tel: (380-44) 212-2691/ 247-3301
Fax: (380-44) 212-0841/ 212-4597

State Customs Service of Ukraine
Mykola Kalenskiy, Head
11, Dehtyariivska St., Kyiv 04119
Tel: (380 44) 274-8298
Fax: (380 44) 274-2851

Security Service of Ukraine
Volodymyr Radchenko, Head
33 Volodymyrska Vul., Kyiv 01003
Tel: (380-44) 291-9152
Fax: (380-44) 226-3431

State Property Fund of Ukraine
Mykhaylo Chechetov, Chairman
18/9 Kutuzova Vul., Kyiv 01133, Ukraine
Tel: (380-44) 295-1274, 296-6401
Fax: (380-44) 295-6984

"Naftogas of Ukraine" National Joint-Stock Company
TBD, Chairman
6 B. Khmelnitskoho Vul., Kyiv 01001, Ukraine
Tel/Fax: (380-44) 229-4579

3. Ukraine's Verkhovna Rada (Parliament)
Verkhovna Rada
5, Hrushevskoho Vul., Kyiv 01008, Ukraine
Tel: (380-44) 226-2292, 254-0890
<http://www.rada.kiev.ua>

Volodymyr Lytvyn, Speaker of the Parliament
Tel: (380-44) 253-7060
Fax: (380-44) 294-0890

Hennadiy Vasiliev, First Vice Speaker
Tel: (380 44) 293-0676
Fax: (380 44) 294-0890

Oleksandr Zinchenko, Vice Speaker
Tel: (380 44) 226-2940
Fax: (380 44) 294-0890

H. KEY MARKET RESEARCH FIRMS

Deloitte & Touche
5 Prytysko-Mykilska Vul., Kyiv 04070, Ukraine
Tel: (380-44) 247-6666; Fax: (380-44) 247-6667
E-mail: kyiv@deloitte.com.ua

Derzh Zovnish Inform
22 Vorovskoho Vul., Kyiv 04054, Ukraine
Tel: (380-44) 216-1636, 216-2937
Fax: (380-44) 216-2368
E-mail: main@dzi.kiev.ua

<http://www.ukrdzi.com.ua>

Ernst & Young
12 Volodymyrska Vul., Kyiv 01025, Ukraine
Tel: (380-44) 490-3000, 212-3564;
Fax: (380-44) 490-3030, 212-5225
E-mail: kyiv@ua.eyi.com
<http://www.ey.com/ukraine>

Harvard Institute for International Development
10b, Khreshchatyk Vul., Kyiv 01001, Ukraine
Tel: (380-44) 228-8660, 228-1349
Fax: (380-44) 228-1349
E-mail: hiid@hiid.kiev.ua
<http://www.harvard.kiev.ua>

Institute of Reforms
14-B Dymytriva St., Kyiv 03150, Ukraine
Tel: (380-44) 239-2315
Fax: (380-44) 246-6525
<http://www.ir.org.ua>

KPMG
11 Mykhaylivska Vul., Kyiv 01001, Ukraine
Tel: (380-44) 490-5507; Fax: (380-44) 490-5508
E-mail: audit@kpmg.kiev.ua

PricewaterhouseCoopers
38, Turgenivska Vul., Kyiv 04054, Ukraine
Tel: (380-44) 247-6777; Fax: (380-44) 216-4558
E-mail: pwc.ukraine@ua.pwcglobal.com
<http://www.pwcglobal.com.ua>

I. MULTILATERAL DEVELOPMENT BANK OFFICES IN UKRAINE

World Bank Field Office (IBRD)
Gregory Jedrzejczak, Chief of Mission
2 Lysenka Vul., Kyiv 01032, Ukraine
Tel: (380-44) 490-6671
Fax: (380-44) 490-6670
<http://www.worldbank.org>

European Bank for Reconstruction and Development (EBRD)
William Franks, Acting Country Director
27/23 Sofiivska Vul., Kyiv 01001, Ukraine
Tel: (380-44) 464-0132; Fax: (380-44) 464-0813
E-mail: Kiev@kev.ebrd.com
<http://www.ebrd.com>

International Finance Corporation (IFC)
Olena Voloshyna, Head of Operations
Dmytro Kryshchenko, Resident Representative, Corporate Finance Services
Amanda Leness, Project Manager, Post-Privatization Project
4, Bohomoltsa Vul., 5th Floor, Kyiv 01024, Ukraine
Tel: (380-44) 293-0662, 293-0657
Fax: (380-44) 490-5830
<http://www.ifc.org>

U.S. Commercial Service

International Monetary Fund (IMF)
Lorenzo Figliuoli, Senior Resident Representative
24/7 Institutaska Vul., Suites 6 and 8, Kyiv 01008, Ukraine
Tel: (380-44) 490-7007
Fax: (380-44) 490-7005
<http://www.imf.org>

Chapter 12: Market Research

Listed below are market research and market insight reports completed or planned by CS Kyiv. Contact our office for details. A complete selection of reports for Ukraine is also available on the National Trade Data Bank (NTDB). The NTDB is the U.S. Government's most comprehensive source of world trade data and offers one-stop shopping for trade information from more than 20 federal sources.

Completed Industrial Sector Analysis (ISAs):

Automotive Parts, Accessories and Expendables	(October 31, 2002)
Fiber Optic Telecommunications Networks	(January 31, 2003)
Airport Development in Ukraine	(April 30, 2003)
Market for Waste Recycling Equipment and Services in Ukraine	(June 30, 2003)
Process Controls for the Oil & Gas Sector	(June 31, 2003)
Agricultural Machinery And Equipment In Ukraine	(August 31, 2003)

2004 Planned ISAs:

Computer equipment manufacturing	(January 31, 2004)
Market for Nutritional Supplements in Ukraine	(February 28, 2004)
Car market in Ukraine	(April 31, 2004)
Oil & Gas Refinery Projects	(August 31, 2004)
Agricultural chemicals in Ukraine	(August 31, 2004)
Port Developments in Ukraine	(June 30, 2004)

Completed International Market Insights (IMIs):

Ukraine approves e-commerce legislation
The World Bank will finance e-government development in Ukraine
The cost structure of the Ukrainian PC market
Ukrainian Market For Perfumery And Cosmetics Products
Major computer manufacturing site built in Ukraine
Ukrainian Market For Perfumery And Cosmetics Products
Wireless mobile industry performance in 2002
Update on internet and data transfer market in Ukraine
Update on IT and telecom markets in Ukraine
Market Exposure For U.S. Firms And Associations At Three Ukrainian Trade Show...
Unprecedented growth of legitimate software sales
Ukraine approves e-commerce legislation
The World Bank will finance e-government development in Ukraine
The cost structure of the Ukrainian PC market
Ukrainian Market For Perfumery And Cosmetics Products
Major computer manufacturing site built in Ukraine
E-government in Ukraine
Ukrainian Books Publishing Industry
Remediation Of Contaminated Sites In Ukraine - Equipment And Services
Ukraine Ethanol Market Potential And Demand For Molecular Sieve Technology
Ebrd Banking Credit Consulting Proj
Ebrd Nuclear Containment Proj

Chernobyl Nuclear Power Plant
 Supply And Installation Of Turbo Generator
 Ebrd - Legal Due Diligence Framework Contract
 Report On Elcom2002 Electrical Industrial Technology Exhibition Held In Kiev...
 Ebrd Due-Diligence Consulting
 Ebrd Rr Supply, Stone-Crushing Proj
 Ebrd Rr Track Maintenance
 "World Food Ukraine 2002" And "Kiev Agrihort 2002" Show Highlights
 Programs For Cooperation Seminar In Odessa
 Fast Food Development
 Energy Highlights Report
 Update On Market Of Imported Computer Components
 Procurement Opportunity For Suppliers Of Modular Individual Building Heat Sub...
 Market Exposure For U.S. Medical Equipment And Pharmaceutical Companies At Pu...
 Pharmaceutical Market In 2001
 Ukrainian Pharmaceutical Market In 2001
 Amendments To The Law On Insurance Came Into Effect
 Automotive Paint Market
 Car Security And Anti-Theft Devices Market
 Dentsply Launches Its Newly Opened Representative Office At Dentistry 2002 Tr...
 Market Exposure For U.S. Companies At The Major Energy Show For \$12.50 Per Day!
 Medical Industry Trade Shows For 2002
 Energy Highlights Report No. 45 For February 2002
 Energy Highlights Report No. 43 For January 2002
 Glass Container Production For Packaging & Drink
 Market Exposure For U.S. Firms & Associations At Two Trade Shows In The Agri-...
 Supply Of Heavy Track Maintenance Equipment
 Mkt Exposure For U.S. Automotive Firms & Associations At "Motor Show Sia 2002"
 Energy Highlights Report For Oct Nov 2001
 Cdma Technology Generates Sales Opportunities For U.S. Eq Suppliers
 Continuing Growth Of Mobile Communications Mkt
 Exim Bank Seeks Telecom Eq For Bank Corporate Network
 Accounting Newspaper In English Started In Ukraine
 Be a Part Of Leading Energy Show For \$12.50 Per Day!
 Broad Trade & Inv Conference Aims To Showcase Ukraine In Early December
 Carbonated Beverage Market Continues To Fizz
 High Attendance At Health Fair Indicates That Ukrainian Exhibit Pay Off
 Juice Demand & Local Production Both On The Way Up
 Mineral Water Market Ready To Be Tapped
 Oil & Gas Show Highlights International Interest In Ukraine's Potential
 Public Payphones In Ukraine: Prepaid Cards On Hold
 U.S. Tourism Infrastructure & Srv Firms Invited To Show Catalogs In Crimea Fair
 U.S. Water Treatment Suppliers Invited To Videoconference With Ukrainian Muni...
 Ukrexim Bank Seeks Printers For Bank Corporate Network
 Energy Highlights Report For Oct 2001
 Ukrainian Mobile Operator UMC Launches Wireless Internet, Creates Opportuniti...
 International Mobile Telecom Operator Turkcell Considers Entering Ukrainian M...
 Strong Growth Of IP Telephony In Spite Of Legal Cloud
 TV Broadcasters Report Strong Growth In Revenues And Become More Attractive F...
 Oil & Gas Drilling Opportunity

Chapter 13: Trade Events

The **International Buyer Program (IBP)** is a joint government-industry effort designed to increase U.S. export sales by promoting major U.S. industry exhibitions to overseas markets. The U.S. Department of Commerce recognizes leading U.S. trade shows in industries with high export potential. Practice, hands-on assistance is provided to U.S. exhibitors interested in exporting and making contacts with prospective qualified overseas trade partners.

IBP'S SCHEDULE

Pack Expo Las Vegas 2003	October 13-15, 2003
Louisiana Gulf Coast Oil Exposition (LAGCOE)	October 28-30, 2003
Automotive Aftermarket Industry Week	November 4-7, 2003
International Irrigation Show	November 18-20, 2003
IAAPA Orlando 2003 Annual Convention	November 19-22, 2003
The International Builders' Show	January 19-22, 2004
World Ag Expo	February 10-12, 2004
Electric Power	March 30 - April 1, 2004
NAB 2004	April 17-22, 2004
Int'l Franchise Expo	April 30 - May 2, 2004
NRA Show	May 15-18, 2004
ASTD International Conference and Exposition	May 21-26, 2004
American Water Works Association Annual Conference and Exhibition	June 13-17, 2004
Annual Meeting & Clinical Laboratory Exposition of the American Association for Clinical Chemistry	July 25-29, 2004
MAGIC International	August 30-September 2, 2004
International Baking Exposition	September 15-18, 2004
Plastics USA	September 28-30, 2004
MINExpo International	September 27-30, 2004,
CTIA Wireless I.T. & Internet 2004	October 22-24, 2004

For additional information about IBP, please contact the U.S. Department of Commerce, Tel: (202) 482-0115, Fax: (202) 482-0872.

LOCAL EXHIBITIONS

Exhibitions are becoming more and more popular in Ukraine. This is evidenced not only by the increase in the number of exhibitions, but also by the number of companies participating at these exhibitions. The most popular subjects for exhibitions are: building materials, consumer goods, foodstuff, furniture, packaging and pharmaceuticals.

2003/2004 Exhibitions to be held in Kyiv, Ukraine

Note: For contact and location information, please refer to the contact listing immediately following the exhibition schedule.

2003

October OIL & GAS' 2003 (5)
- technologies and equipment for oil, gas and oil refining industries

October PUBLIC HEALTH
- medical equipment and technologies

2004

February ENTEREX'2004 (2)
- communication technologies, computer systems

April UITT
- travel & tourism and EquipHotel

April Cottage'2004 (1)
- construction and building materials

April ELCOM-UKRAINE (2)
- power generation; power transmission; power distribution; industrial electrical equipment; drives and standard products; automation; lighting

May SIA 2004 MOTOR SHOW (4)
- personal and freight motor vehicles, transport, spare parts, service facilities, accessories, lubricating products and equipment, instruments, motor-oriented facilities

May ENERGY FORUM 2004 Ukraine (3)
- electric power systems, industrial electrical equipment; oil and gas equipment and services; energy conservation engineering, equipment and services; alternative sources of energy, registration and control devices; industrial and household energy efficiency appliances

Contacts:

(1) Arcada Open Joint Stock Company
40-richja Zhovtnya Avenue, 50, Kiev, 03039, Ukraine
Phone/fax: 380 (44) 263-1039, 380 (44) 263-1049
E-mail: arkada@public.ua.net
Http://www.arcada.com.ua

(2) Euroindex
P.O. Box 726, Kyiv 252032, Ukraine
56, Peremohy Prospect, Kyiv 252058, Ukraine
Tel: (380-44) 441-2573, 441-2774
Fax: (380-44) 441-2413, 441-2470
E-mail: enterex@eindex.kiev.ua
http://www.euroindex.com.ua

(3) Ukrenergozberezhennia JSC
Maryna Tymoschenko, Manager
Tel: (380-44) 458-0418; Fax: (380-44) 446-8023

(4) AUTOEXPO
29-A Electikov St., Kyiv 04176, Ukraine
Tel: (380 44) 462-5929; Fax: (380 44) 462-5981
www.autoexpo.relc.com

(5) ACCO International
40-B Peremohy Ave., Kiev 04054, Ukraine
Tel: (380-44) 446-3802, 446-3804
Fax: (380-44) 458-4624, 446-3808
E-mail: acco@carrier.kiev.ua

Note: Exhibitions provide a good opportunity to obtain first hand knowledge of the market and prospective competitors and also for testing Ukraine's receptivity towards U.S. products. The Commercial Service, Kyiv urges those interested in participating or attending any of the above exhibitions to contact the exhibition organizer directly. For more detailed up-to-date information on upcoming exhibitions in Ukraine, please contact:

U.S. Commercial Service
4, Hlybochytska Vul, Kyiv 04050, Ukraine
Tel: (380-44) 490-4018; Fax: (380-44) 490-4046
E-mail: kiev.office.box@mail.doc.gov

SHOWCASE EUROPE / OTHER TRADE EVENTS:

Showcase Europe offers a new way of doing business by highlighting Europe as a single market, the largest export market for U.S. companies. Below are listed trade promotion events which are part of the Showcase Europe program where CS-Kiev specialists are likely to attend.

-World Telecom , Geneva
- U.S./Eastern Europe Airport Infrastructure Conference
and Trade Mission, Prague, Czech Republic

October, 2003
November, 2003

-CEBIT'2004, Hanover, Germany
-International PowWow, Los Angeles, CA
-Power-Gen Europe

March, 2004
April, 2004
May, 2004

If interested in receiving information regarding participation in the U.S. pavilion at one of these trade events, please contact your local Commercial Service office or the U.S. Commercial Service in Lisbon. Showcase Europe sectors include Aerospace, Auto Parts, Energy, Environment, Franchising, Information Technologies, Medical & Pharmaceutical, and Travel & Tourism.

Country Commercial Guides can be ordered in hard copy or on diskette from the **National Technical Information Service (NTIS)** at **1-800-553-NTIS**. U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** of the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to one of the following websites: www.usatrade.gov or www.tradeinfo.doc.gov

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.