



Doing Business In Ukraine: A Country Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Ukraine

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Market Overview

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Ukraine is market economy at the crossroads of Eastern Europe, Russia, and the Middle East. It has become an increasingly important market for U.S. trade and investment. Ukraine's resources and economic strengths include rich agricultural land, a strong scientific establishment, an educated and skilled workforce, and significant mineral reserves. Ukraine has achieved significant progress in opening its market to exports and investment, particularly in the last few years.

Ukraine is officially an USD 80 billion economy, comprising heavy and light industry, oil and gas transit, coal and mineral extraction, oil refining, chemicals, agriculture, and food processing. The country's population is approximately 47 million. Its official GDP is under-estimated because the local currency, hryvnya (UAH), is artificially pegged to the U.S. dollar and much activity takes place "in the shadows" or outside the official economy. GDP per capita estimates based on purchasing power parity are 2-3 times higher than the official numbers. Ukraine's economy grew 2-3% in 2005 after expanding at 5-12% per year from 2001 to 2004. The 2005 economic slowdown reflected the impact of three rounds of presidential elections held in October-December 2004 and exaggerated social goals and commitments made during the 2004 presidential election campaign. In 2005, the population's nominal household income grew over 39% while real disposable income grew 20%. Weakening international demand for some traditional Ukrainian exports, on the one hand, and increased social spending and growing incomes of the population on the other, changed the economy's structure by increasing the share of domestic consumption and savings. This represents a shift from the export oriented economy model of 2001 –2004, which was driven by exports of manufactured goods (mostly metals and chemicals), agricultural products, construction and other capital investment, oil and gas transport services, and government spending.

In 2005, Ukraine received a record high of over USD 7.3 billion in foreign direct investment (FDI) making the total amount of foreign direct investment in Ukraine USD 16.4 billion, as of January 1, 2006. Despite the strong increase, the total FDI was still far below the totals in most Central and East European countries. A substantial portion of the 2005 influx was attributed to the privatization of Kryvorizhstal Steel Mill, sold to Mittal Steel Germany GmbH for UAH 24.2 billion (USD 4.8 billion) in October 2005, and the acquisition of Bank Aval by Raiffeisen International Bank-Holding AG for over USD 1 billion, announced in August 2005.

These two events signaled the beginning of two major trends that will strongly influence the Ukrainian economy in 2005-2006 and beyond. The first trend is the privatization of strategic enterprises through public, transparent and open tenders, a phenomenon uncommon in post-Soviet economies. The other trend is the advent of major

international financial institutions, primarily banks and insurance companies that are entering the Ukrainian market by acquiring leading local market players. Both trends are crucially important for the stability of Ukraine's financial system, its incorporation into international financial markets, and for the overall Ukrainian economy which always suffers from an absence of affordable financial resources.

The third event that will play a crucial role in the development of the Ukrainian economy is the dispute with Gazprom (Russian supplier of natural gas) over natural gas prices and the subsequent near doubling of wholesale gas prices. The growing gas prices will further hurt those sectors of the Ukrainian economy that have generated the most export revenues (i.e. steel, chemicals, sugar refineries, machine building) and stimulate investment into new gas/oil deposit exploration (especially on the Black Sea shelf), energy efficiency, nuclear energy, and coal mining. In its search for hard currency revenues, the country will have to rely more on its geographic position and invest in its transportation infrastructure - roads, railroads and seaports.

Ukraine's proximity to EU markets is a key factor for leading international manufacturers (mostly in consumer electronics, electronic components, furniture, etc.) that are either building or considering production facilities in Ukraine to source industrial consumers and end-users in EU countries. These manufacturing projects have been reshaping the economic and social life in Western Ukraine.

Ukraine's anticipated accession to the WTO in 2006 would further open its economy to foreign business.

Market Challenges

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Because Ukraine's economy depends heavily on exports, its regulatory system is organized to foster exporting and to protect the local market from competing imports. This is why importers must face troublesome customs, licensing and certification procedures. In addition, local companies are often subject to oppressive taxation and unfair tax collection practices. Although Ukraine is improving its regulatory environment through reforms taken in the process of WTO membership negotiations, significant improvements in the rule of law and corporate governance are still needed. Until these basic weaknesses are corrected, and an independent judiciary is established to support and protect them, Ukraine's economic development is likely to continue to lag behind its Central and Eastern European neighbors, and will be unable to attract the volume of foreign investment that the country needs to raise living standards.

Market Opportunities

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Highly qualified and relatively cheap labor, developed transportation and communications infrastructure, and a favorable geographic location make Ukraine attractive for companies interested in this part of the globe. Promising sectors include oil and natural gas extraction, energy efficiency, oil & gas field machinery, electrical power systems, agricultural machinery, airport/ground support equipment, telecommunications, pharmaceuticals, food processing & packaging equipment, medical equipment, computers & peripherals, agricultural chemicals, automotive parts/services equipment, building materials, pollution control equipment, travel & tourism, security & safety equipment, computer software & services, and retail trade. In the near future there may

be significant investment opportunities for U.S. investors in the gas and oil industry, energy efficiency, electrical power systems, telecommunications, commercial real estate, transportation infrastructure development, and commercial banking. The country is also an attractive place to deploy manufacturing sites and service centers for customers located in the EU and Russia. In fact, Ukraine's geographic location, communications infrastructure, and improving political and economic environment make it an effective transportation corridor between the EU, Russia and the rest of the CIS.

Market Entry Strategy

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The sheer geographic size of Ukraine and its relatively high level of population dispersion make establishing a viable distribution network of great importance. Having a local representative and competent distributor are essential, since a strong business information network and transparent market rules have yet to develop. U.S. companies considering entering this market should seek legal counsel before and while doing business in Ukraine. Given the tenuous commercial environment and weak legal infrastructure, it is essential to obtain sound legal advice in structuring a company's investment and/or commercial plans.

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Chapter 2: Political and Economic Environment

<http://www.state.gov/p/eur/ci/up/>

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Using an Agent or Distributor

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One advantage of dealing with agents and distributors is that they may handle burdensome certification and licensing procedures for imported products.

Like 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 is 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 the following points in mind:

1) While the extent of available information on Ukrainian companies has improved slightly, background data and credit history information on potential Ukrainian distributors is still very limited. 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 a company's investment. Furthermore, it is important to keep-up with the 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 for partnership with a Ukrainian company, a U.S. investor must 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, and 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 those located in the cities of Lviv, Odessa, Zaporizhzhya, Dnipropetrovsk, Donetsk, and Kharkiv. These regions are considered important industrial centers of Ukraine and are densely populated.

Establishing an Office

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When a foreign company plans to start business in Ukraine, the following legal forms are available: joint stock company, limited liability company, wholly-owned subsidiary, or 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 is 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.

Registration of local offices of foreign companies is handled by Ukraine's Ministry of Economy, and is done within 60 days of submission of all required documents and upon payment of a USD 2,500 fee.

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

1. Application for registration on company letterhead signed by Head of the company and with seal affixed. The form is free.
2. Extract from Trade Register of a country of location of an officially registered central management body (office) of a foreign business entity.
3. Certificate of a bank that services the company, containing the account number.
4. Warrant in the name of a concrete person for execution of representative functions in the territory of Ukraine, listing the authority of a representative.

Originals of documents listed in points 1,2,3,4 must be duly notarized . The documents must be in the Ukrainian language. A seal of an official translator must attest translation. The documents must be submitted to the Ministry of Economy no later than 6 months after issuance in the country of origin. Upon acceptance of registration documents, an applicant will pay a registration fee, amounting to USD 2,500. Within a month of obtaining a registration certificate, a representative office must register with the local tax inspectors.

To obtain detailed information on how to register a local office of a foreign company, please contact Mr. Alexey Maximenko, Ministry of Economy at phone: 38044-272-5579 or by e-mail: ustanov@msert.com.ua

For relevant GOU regulation (Order by the Ministry of Foreign Economic Relations No. 30 dated 18.01.1996) containing detailed information and a list of required documents (in Ukrainian only) please refer to:

<http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi>

<http://zakon.rada.gov.ua/>

Please note that in addition to registering with the GOU, all business entities with legal entity status (resident or foreign) should be officially registered with a relevant administrative body at the place of residence of the given business entity, unless otherwise provided by law.

Franchising

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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, T.G.I. Friday's and others. The 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 company 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 serves as Spar's warehouse for its stores.

CarRent Ukraine, the Hertz Franchise in Ukraine, and First Lease Ltd. merged their operations. First Lease bought the franchising license for Hertz. CarRent Ukraine is now responsible for car rental and First Lease – 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 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 loans, an undeveloped leasing system, and obscure IPR legislation.

Direct Marketing

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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 mailing 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.

Joint Ventures/Licensing

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Joint ventures, including those between Ukrainian and Western partners, became popular in Ukraine soon after independence. Ukrainian businesspeople viewed them as a compromise between the customary form of business, which was oriented toward 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.

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 or requiring licensing.

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 Agrarian 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 Environmental Protection Http://www.menr.gov.ua	- Exploration and development of natural resources; - exploration of uranium ores and deposits - certain kinds of waste collection and processing (List 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 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 pest control 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 http://www.kmu.gov.ua	- land survey and appraisal services;
State Committee for Communication and Informatics 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.ssmsc.gov.ua	- brokerage and trade in securities and stocks;
State Customs Service http://www.customs.gov.ua	- customs broker services;

Selling to the Government

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Government procurement represents an export opportunity for U.S. companies. However, the Ukrainian government lacks internal resources for many large purchases. Companies are advised to track the tender announcements of the World Bank and the European Bank for Reconstruction and Development (EBRD), which have initiated numerous programs to assist Ukraine in its transition to a market economy. The presence of a Western tender organizer often makes selling to the government a more transparent practice, providing for published deadlines, proposal criteria, and more importantly, Western oversight in making final procurement decisions. Ukraine is not yet a signatory of the WTO Agreement on Government Procurement, but Ukraine hopes to join the WTO in 2006.

Government procurement is governed by the Law "On Procurement of Goods, Works and Services Using State Funds" #1490-3 dated February 22, 2000. Under this law, all government procurement of goods and services valued above EUR 40,000 must be conducted via tenders (either open, or open with pre-qualification). Open international tenders must be conducted when procurement is financed by an entity not resident in Ukraine. Information on government procurement is published in the "Visnyk Derzhavnykh Zakupivel" (State Procurement Bulletin) of the Ministry of Economy. American company representatives in Ukraine can arrange a 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) 552-4365

E-mail: vdztender@me.gov.ua

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

Distribution and Sales Channels

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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 inexpensive, but less reliable, method of shipping products throughout the country. Rail traffic has fallen substantially since Ukrainian independence, so reduced delays at border crossing points may make rail transport a viable 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 CIS.

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 reliable distribution network of great importance. While some of the larger firms use their own internal customs clearance and distribution networks, several smaller companies use freight forwarders for distributing products. 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 in recent years. Western-style distribution networks are developing in the country. During the last several years, networks of chain stores, brand name stores and supermarkets have emerged. They are located primarily in the downtown and suburban 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 of the key factors influencing the marketing of U.S. products in Ukraine is careful 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 toward 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 policies. 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 trying to apply sales policies used in Western and Central Europe (or even Russia), a flexible and cooperative policy, oriented toward a long-term presence in the market, is much more likely to bring desired results.

Problems have arisen for U.S. companies that sell through their Euro-zone subsidiaries. Unfavorable currency exchange rates and higher European taxes and/or duties may decrease the price competitiveness of U.S. products. Additionally, working through European subsidiaries is perceived by some 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 negative impact on the working capital of resident companies, reducing their credit resources.

Selling Factors/Techniques

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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, including those falsely marketed under well-known brand names, and partially due to the high

quality of locally produced food products and beverages. Conservatism of some 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. TV advertising has proven to be the most efficient and cost effective way to win new customers. Consumer confidence in a particular product is improved by a description, list of ingredients, warranty or maintenance guarantee. Ukrainian consumers find unappealing Western brand name products 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.

When planning their sales strategy for Ukraine, U.S. exporters should take into account 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, even middle class Ukrainians are ready to pay top dollar prices for expensive brand name clothing, top quality household appliances, jewelry and furniture. Since U.S. goods generally have a very good reputation but are not widely available on the local consumer market, a tag "Made in USA" could definitely increase customers' enthusiasm.

Retail superstore chains are increasingly present in major cities and primarily specialize in food or consumer electronics. Other consumer goods are sold mainly through specialized retail outlets or open sky markets. METRO Cash & Carry Ukraine started offering food and nonfood items at wholesale prices in 2003. U.S. retail superstore chains (e.g. Wal-Mart, Kmart, etc.) could help reshape the local market for consumer goods, increase its potential, and change selling techniques.

Selling goods on credit has also begun to have a revolutionary impact on the market. Increasing financial stability, improving transparency in personal incomes and growing purchasing capacity of the Ukrainian people enabled banks to start offering credit not only for major acquisitions (i.e. real estate or cars) but also for a wide variety of consumer goods.

Electronic Commerce

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E-commerce is just beginning to gain some popularity in Ukraine. Its growth evidently lags behind the development of the banking card system. Some years ago the underdeveloped banking card system, limited number of internet users and lack of legal norms needed to regulate e-commerce (especially B2B) were viewed as the main obstacles for fast e-commerce development. There are almost 16 million MasterCard and Visa cards, and close to 6 million Internet users in Ukraine now. Basic regulations are in place. However both B2C and B2B segments of e-commerce are still in their initial development.

Most Ukrainian Internet shops are price lists or advertising sites with an option to place an order, that later could be delivered, after a cash payment, card payment or bank transfer is received. Smaller purchases, such as online DVD and food orders, may be paid in cash upon delivery. Many Internet shops accept online payments from clients of

their partner banks only. Ukrainian Government officials, though, purporting to understand the benefits of e-commerce, are mostly indifferent to the problems of this sector. So its development, especially in its B2C segment, is motivated almost exclusively by the enthusiasm of individual representatives of the IT community. B2B e-commerce has experienced a successful start in such areas as metals trading, IT, and transport services. However, B2B's further development fully depends on the corporate strategies of individual companies that may see a benefit in including e-commerce in their development plans. So far, both businesses and customers usually view e-commerce more as an entertainment than a serious business opportunity. The attitude of controlling government bodies (e.g. tax inspectorate, customs) is more skeptical and negative. A psychological mistrust and conservatism seem to be the main obstacles for further development of e-commerce in this country. Please see the following e-commerce sites:

<http://furshet.ua/>

<http://www.int-commerce.com/intc/index.html>

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

<http://www.ukraineinternational.com/eng>

<http://e-commerce.com.ua/>

Trade Promotion and Advertising

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Today, there are over 300 advertising agencies in Ukraine, many of which carry a wide range of services.

The most popular TV channels in terms of advertising are Inter, 1+1, ICTV, UT-1 (the central state channel), Channel 5, and STB. The most popular commercial radio channels are Gala Radio, ERA, Music Radio, Prosto Radio, Russkoye Radio, Shanson, and Renaissance. Together, radio and TV make up about 64% of the national advertising market.

Newspaper advertising accounts for another 14% of the advertising market. The major Ukrainian papers/journals which may be used for advertising include: Den/Day (www.day.kiev.ua); Fakty/Facts (www.facts.kiev.ua); Segodnia/Today (<http://today.viaduk.net>); Silski Visti/Countryside News (<http://silskivisti.kiev.ua>); Uryadovyy Kuryer/Government Courier (<http://uamedia.visti.net/uk/>); Delovaya Nedelia/Business Week (<http://dn.kiev.ua>); Biznes/Business (www.business.ua); Halytski Kontrakty/Halytski Contracts (www.qc.lviv.ua); Kompan&on (www.companion.ua); Zerkalo Nedeli/Mirror of the Week (www.mirror.kiev.ua); Telenedelia/TV Week (www.tvweek.com.ua); Express-Obyava/advertising and announcements (www.eo.kiev.ua); Aviso/advertising and announcements (www.aviso.kiev.ua). Many international men's and women's magazines are published in Ukraine and are good for advertising. The major English-language newspapers/journals are: Kyiv Post (www.kyivpost.com), KyivWeekly (www.kyivweekly.com), and What'sOn (www.whatson-kyiv.com).

Outdoor advertising accounts for 22% of advertising expenditures in Ukraine. Among the regions of Ukraine, the largest budgets for advertising are in the Kyiv, Dnipropetrovsk, Odessa, Kharkiv, Donetsk, and Lviv regions. One of the largest outdoor advertising companies in Ukraine, Bigboard (a Czech-Ukrainian joint venture formed early in 1993), was the first private company to sell outdoor space – mainly billboards -

for advertising in Ukraine. Despite the entry of other competitors, Bigboard remains the largest, with a market share of about 30%. Outdoor advertising companies must obtain licenses from local authorities. 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.

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 (www.twgworld.com). PR agencies in Ukraine have their own industry-lobbying association.

The law that regulates advertising in Ukraine is the law "On Advertising" #270/96 of March 7, 1996, with November 7, 2003 amendments (law # 1121-IV).

Under most circumstances, advertising in Ukraine has to be in the Ukrainian language. However, advertisements in media primarily printed or broadcast in a different language are exempt. Trademarks registered in a foreign language or alphabet are also permitted.

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.

Major local trade show organizers and fair authorities include: Euroindex (www.euroindex.com.ua), Medvin (www.medvin.kiev.ua), PremierExpo (www.pe.com.ua), ACCO International (www.acco.com.ua), International Exhibition Center (www.iec-expo.com.ua), KyivExpoPlaza (www.expoplaza.kiev.ua). CS Kiev actively promotes American exporters at major local trade shows, mounting and staffing U.S. Product Literature Centers at the shows (see <http://www.buyusa.gov/ukraine/en/28.html>).

On request, Commercial Service (CS) Kiev can provide an extensive list of advertising agencies, as well as print and television media operating in Ukraine (see Customized Contact List service at <http://www.buyusa.gov/ukraine/en/13.html>).

CS Kiev can offer your company flexible interactive promotion in Ukraine: under Business Service Providers or FUSE – BuyUSA featured U.S. exporters (see <http://www.buyusa.gov/ukraine/en/29.html>).

Pricing

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Prices in Ukraine typically include a 20% Value Added Tax. While the average import tariff came down from 19.7% to 6.5% over 2005, many tariffs are still very high compared with those in the U.S. 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 rates in 2003-2005 added a high overhead cost to goods imported from Europe making direct imports from the U.S. more attractive. To date, the Ukrainian market has been flooded with cheap, low-quality goods from Asia 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 limited opportunities for long-term savings or investments, Ukrainians that have lived through the crash of the 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 also be aware of the fact that some of their local competitors that claim to be selling exclusive Western products at “a European” price, could be money laundering operations.

The other factor worth taking into consideration is the availability of after-sale service 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. As of January 2006, the average Ukrainian monthly wage was UAH 865 (USD 173). However, the Ukrainian shadow economy and in-kind revenues received by families that own land or other agricultural resources, increased. In 2005, the population’s nominal household income grew over 39%, while real disposable income grew 20%. 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 statistics.

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-50 and over-50 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 strong 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. Major Ukrainian cities (e.g. Dnipropetrovsk, Donetsk, Kharkiv, Zaporizhzhya, Odessa, 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 grain, gas, oil etc. Government regulated prices and tariffs may change as a result of changes in production and sales conditions.

To see prices for different goods please refer to the following web sites:

<http://price.com.ua/> <http://shop.bigmir.net/> <http://itc.ua/hl/>

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 the 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 the importer's trademark and IPR, and helps build a strong market demand for such products.

Protecting Your Intellectual Property

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Ukraine was the only country named a Priority Foreign Country in the 2002, 2003, 2004 and 2005 Special 301 reviews conducted by USTR. Special 301 is the principal U.S. statute for addressing foreign unfair trade practices. The United States withdrew Ukraine's benefits under the Generalized System of Preferences (GSP) program in August 2001 and imposed USD 75 million worth of sanctions on Ukrainian imports on January 23, 2002. The GSP gives preferential U.S. duty-free entry to approximately 3,000 products from designated beneficiary countries and territories. These sanctions, which affected a number of Ukrainian products, including metal, footwear, and chemicals, were lifted on August 30, 2005 after the Ukrainian Government secured passage of important amendments to the Optical Disc Licensing Law, which went into effect on August 2, 2005. USTR also conducted an Out-of-Cycle Review (OCR) of Ukraine to assess Ukraine's implementation of the new amendments and its overall trend of enforcement since the time that sanctions were imposed. As a result of that review, USTR reinstated GSP benefits for Ukraine and improved Ukraine's designation under Special 301 from "priority foreign country" to "priority watch list" on January 23, 2006. USTR commended the Government of Ukraine for its sustained efforts to crack down on copyright piracy. Nevertheless, Ukraine remains a major trans-shipment point, storage location, and market for illegal optical media produced in Russia and elsewhere. It needs to significantly improve its customs border enforcement to deal with these continuing problems.

Ukraine is an active member of the World Intellectual Property Organization and a signatory to a number of international agreements and conventions. As part of its ongoing efforts to negotiate accession to the WTO, Ukraine adopted legislation, including a May 2003 Omnibus package, to bring its laws into compliance with the WTO Agreement on Trade- Related Aspects of Intellectual Property Rights (TRIPS). Some possible issues remain with Ukraine's treatment of foreign geographical indicators and test trial data. Ukraine is in the process of strengthening its legal protection for pharmaceutical test data that pharmaceutical companies must submit to government authorities to obtain marketing approval. Patent and trademark violations are common in Ukraine, and U.S. industries have reported widespread counterfeiting of pharmaceuticals and consumer products. The Ukrainian Ministry of Health reportedly does not check the validity of patents when it permits pharmaceutical sales in Ukraine. In one case, the Ministry of Health allowed a European company to register the same drug for which a U.S. company held a valid patent.

The State Department of Intellectual Property (SDIP) is responsible for the formulation and implementation of Ukraine's intellectual property policy. In order to increase IPR enforcement, the Ministry of Internal Affairs and the State Customs Service have also set up units to deal exclusively with IPR violations. These under-staffed units have difficulty dealing with the large number of IPR infringements. In many cases, the rights holder must actively engage with the Ministry of Internal Affairs or the State Customs Service to obtain enforcement. In fact, trademarked and copyrighted goods must be registered for a fee (USD 400 for the first good for the first year) in Customs' rights holder database in order to be guaranteed protection. Optical discs, however, also receive protection under the import-licensing regime, so few recording or motion picture companies bother to register. Generally low confidence in the Ukrainian judicial system means few enterprises bring private lawsuits. Legal experts and government officials have called for the formation of a special patent court in Ukraine to adjudicate patent cases, but to date there has been no concrete action toward this end.

Due Diligence

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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, because their objectivity may 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.

Due diligence is performed by a Dun&Bradstreet representative in Ukraine – Avesta-Ukraine (www.avesta-ukraine.com.ua), or by western accounting/law firms and investment advisors with a permanent local presence.

To help U.S. companies evaluate a potential Ukrainian business partner, CS Kiev offers an International Company Profile service (see <http://www.buyusa.gov/ukraine/en/47.html>).

Local Professional Services

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Business service providers can be found at <http://www.buyusa.gov/ukraine/en/bsp.html> and <http://www.buyusa.gov/ukraine/en/51.html>

U.S. companies can find professional personnel for their Ukrainian operations through a number of experienced recruitment agencies working in Ukraine, local as well as international. Major recruitment agencies in Ukraine include: Ancor SW (www.ancor-sw.com/), Alternativa (www.alter.com.ua), Brain Source International (<http://brain-source.com>), Egida (www.egida.com), Grand Personnel (www.gp.com.ua), Human Factor (www.humanfactor.com.ua), Management Consulting (www.mchr.com.ua/), Powerpact HR Consulting/Execusearch International TM (www.powerpact.com.ua), Staff Standard (www.stafstan.com). Association of Regional Recruiting Agencies of Ukraine (ARKA): <http://www.arka.com.ua>

Web Resources

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<http://www.bizukraine.com/employment.htm>
http://ukraine-today.com/business/person_agenc/personnel_agencies.htm
<http://ukraine-today.com/business/employment/index.shtml>
<http://www.ukrjob.hut.ru/agency.php>

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Agricultural Chemicals (AGC)

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The estimated annual size of the pesticides market in Ukraine is USD 130-150 million, while its potential demand totals almost USD 1 billion.

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 market for pesticides in Ukraine is fairly large. The overall annual demand for pesticides is currently estimated at 30-35 thousand tons, needed to cover an area of 20 million hectares. A substantial amount of harvested crops are lost due to pests, fungus, and weeds. As a result of this lack of pesticides, over 30% of the annual crop harvest is lost.

Approximately 70-80% of the pesticides currently sold in Ukraine are imported. As domestic pesticide production lacks raw materials, the demand for plant-protection chemicals provides real incentives to importers of agricultural chemicals. Most companies marketing pesticides in Ukraine represent European subsidiaries of foreign multinational companies.

Best Products/Services

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Local pesticide and agricultural chemical production meets only 20% of Ukraine's annual needs, and even this limited production depends on 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.

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 thirty companies supply agricultural chemicals to the Ukrainian market. Sales to locally licensed or authorized intermediaries and distributors are the most prevalent marketing strategies.

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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.

Ministry of Agrarian Policy of Ukraine: <http://www.minagro.kiev.ua/newenglish/index.html>

European Business Association Agrochemical Committee
<http://eba.com.ua/activities/committees/agrochemical/>

Ukrainian Crop Protection Association: <http://ucpa.org.ua/> (Ukrainian language only)

Agribusiness news:

<http://www.agriukraine.com/>

<http://www.agroperspectiva.com/en/>

Agricultural Machinery (AGM)

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According to various resources, an immediate demand to replenish the physically depreciated farm and processing equipment in Ukraine is estimated at USD 5-10 billion, with an annual supply of USD 1-2 billion worth of farm equipment.

Experts estimate the current level of physical depreciation of agricultural machinery and equipment at 70-80 %, compared to 55-60 % in 1999. Approximately 40 % of tractors are 15-25 years old. The need to replace basic farm machinery is becoming critical.

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There are about 40 manufacturers of agricultural machinery in Ukraine, who still supply a significant part of Ukraine's agricultural machinery, in particular, ploughs, harrows, cultivators, seeders and sprayers. Production facilities at most agricultural machinery plants are currently being utilized at levels ranging from 15% to 30%. The price of domestically produced agricultural machinery is not cheap, because of inefficient and outdated manufacturing technologies. All of this makes local machinery less attractive for agricultural companies.

Western European firms actively operate in the Ukrainian market. They understand that despite the obstacles to doing business in Ukraine, the potential for hard currency agribusiness exports is great.

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. 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.

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The supply of second-hand machinery from Europe has gradually decreased, and with the dollar exchange devaluation, this opens up more opportunities for American exporters of used agricultural machinery. There is currently a critical demand for dependable farm machinery due to the lack of reliable domestic manufacturing. High-quality U.S. equipment can have a positive impact on Ukrainian agricultural productivity. Ukraine offers excellent opportunities for U.S. companies to expand to other markets nearby such as Russia and other CIS countries.

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Ministry of Agrarian Policy of Ukraine: <http://www.minagro.kiev.ua/newenglish/index.html>

Agribusiness news:

<http://www.agriukraine.com/>

<http://www.agroperspectiva.com/en/>

Collocated agri-food trade shows – Kiev AgriHort (agricultural machinery and chemicals) and UkrProdMash (food and drink processing and packaging technologies and equipment). Show organizers web-sites: www.bto-exhibitions.nl and www.pe.com.ua

Airport/Ground Support Equipment (APG)

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Since 2000, the Ukrainian civil aviation industry has demonstrated steady growth in passenger turnover, with traffic increasing from an annual 6% in 2000 to over 34% in 2003 and 36.4% in 2004. In 2003, air cargo transportation grew by over 64.3% in Ukraine to 148.4 tons vs. 90.3 tons in 2002. Despite the slowdown in global commercial aviation following September 11, 2001 in the United States, the traffic growth in Ukrainian airports has not been affected. Local experts predict that this positive trend will continue, provided that current economic development stays on track.

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Ukrainian airports have the potential to service six million passengers annually (according to data provided by the Ukrainian Ministry of Transportation), but currently operate at lower than 40 percent capacity. Kyiv-Boryspil (KBP) is the largest Ukrainian airport servicing close to 60% of the country's commercial air traffic. Over 3.2 million passengers flew through Boryspil in 2004, a 34% growth compared with 2003. The airport served 72 local and foreign airlines in 2003 which operated scheduled flights to 103 destinations in 37 countries. Boryspil serves 58,400 flights per year, including almost 67% of international flights to and from Ukraine. General passenger turnover at Ukrainian airports grew by 25% from 4.25 million in 2003 to 5.3 million in 2004, and about 6 million in 2005. The projection for 2006 is 7.5 million passengers.

The GOU hopes to turn Boryspil Airport into a Central and Eastern European hub for most major international connections, while the regional airports would feed travelers from regions. Construction has already started on two new terminals at Boryspil, a private terminal for Aerosvit, the national carrier and a state-run terminal which will be financed by a Japanese Government loan. These two terminals should be finished by the end of 2008. Practically, all of Ukraine's regional airports require modernization and significant investments to improve runways, passenger or cargo terminals, technological systems, transport and communications. However, the poor financial condition of most of Ukraine's airports (except Boryspil) does not provide them sufficient funds to modernize terminals and create competitive services. The Government of Ukraine plans starting reconstruction/modernization of regional airports in cities with more than 1 million population by 2009-2010. The design of these projects should start in 2007. The state plans to finance the initial stages of the projects. Later, they would be transferred to private hands.

Most of the equipment working in Ukrainian airports is based on technology of the early 1990s. Historically, airports had centralized supply of equipment according to norms of the Soviet Ministry of Civil Aviation. Today airports themselves make necessary procurements. Ukraine's airport industrial base is not technologically advanced, and is not able to satisfy the needs of airport infrastructure. There are few local manufacturers of products required in this sector. The exceptions are local construction companies and local steel structure fabricators that can offer better prices than foreign suppliers. Lighting and signaling equipment, air bridges, de-icing equipment

and de-icing fluid, baggage and cargo handling systems, elevators, loaders and reloading containers, airfield movers, security equipment, and air-conditioning and heating systems are in demand.

Air Navigation Equipment. The Ukrainian State Air Traffic Service Enterprise (UkSATSE) is responsible for the operation of the Ukrainian air navigation system (ANS). It operates five regional centers of flight information, which cover an area of 730,372 square kilometers, and provide navigation services to an average 200,000 flights per year.

The equipment and infrastructure used in providing air navigation services in the Ukrainian airspace are in need of update and modernization. In late 2003, the GOU completed a tender process, based on a European Bank for Reconstruction and Development (EBRD) USD 23 million loan, for several projects, as part of its airspace and air traffic control modernization program. UkSATSE will need to import all of the equipment (including MSSR and VCS radars), as well as develop new air traffic control (ATC) Centers in Dnipropetrovsk and Simferopol. Another USTDA funded feasibility study, completed in December 2005, developed a transition plan from ground-based to satellite-based Communication, Navigation and Surveillance/ Air Traffic Management (CNS/ATM) systems in Ukraine and four neighboring states (Moldova, Armenia, Azerbaijan and Georgia). The estimated potential sales of necessary equipment and technology will be in excess of USD 100 million.

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The Ukrainian flagship carrier Aerosvit Ukrainian Airlines started an ambitious Terminal D development project at Boryspil Airport in October 2004, with a total cost of around USD 100 million. The airline plans to invest USD 24 million of its own funds and raise the remainder from international lenders. The new Terminal D project was launched in December 2005 and will consist of a 31,000 square meter three-level terminal building, seven aerobridge gates, a 300-meter gallery to connect with the existing main Terminal B, a 164 square meter parking lot, a line of retail and food shops, business and conference lounges, and a hotel. When completed, the Aerosvit Terminal will have a projected capacity of 2,000 passengers per hour (3.5 million per year) and can be gradually increased to 4,000 passengers/hour (8 million passengers per year by 2015).

The new Terminal "D" development project will be majority funded by the Japanese Bank for International Cooperation (JBIC), which has issued a long term yen loan equivalent to USD 178 million to the Government of Ukraine (GOU) as part of Japan's Official Development Assistance. KBP airport authority will cover the remaining 25% of expenses on this project. By implementing the new terminal development program, the passenger handling capacity is expected to grow to 2,000 pax/hour by 2008. Japan Airport Consulting will lead on the project development phase.

In 2003, air cargo transportation grew by over 64.3% in Ukraine to 148.4 tons vs. 90.3 tons in 2002. Having in its possession a fleet of the world's largest air cargo planes Antonov-124s and Antovov-225s, Ukraine offers good sales opportunities for U.S. firms involved in cargo terminal engineering and operations, cargo handling equipment, air navigation and ground support equipment, and freight forwarding and chartering. Additional opportunities exist in a planned conversion of former military airbases into cargo airports, actively promoted by the GOU.

U.S. suppliers seeking to enter the Ukrainian market are advised to establish long-term partnerships directly with Ukrainian airports and the Ukrainian civil aviation authority Derzhaviasluzhba. Local firms, because of the local availability of raw materials and labor, traditionally dominate construction projects. U.S. companies should do well in providing engineering and consultant/management services, as well as high technology security systems and computer technology products. Software systems that address the most stringent environmental requirements are also an area in which American companies have a competitive advantage. Opportunities exist for new baggage handling and scanning equipment, people movers and new arrival and departure information systems.

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State Civil Aviation Authority "Derzhaviasluzhba": <http://www.avia.gov.ua>
Kyiv-Boryspil International Airport (KBP): <http://www.airport-borispol.kiev.ua/>
Aerosvit Ukrainian Airlines: <http://www.aerosvit.com/>

Automotive Parts/Service Equipment (APS)

Overview

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In 2004 Ukrainian motorists bought 211,000 cars (estimated USD 1.5 billion). According to Ukrainian experts, this trend will continue.

Direct imports of autos from the U.S.A. are represented by the Winner-Ford dealer and the local GM-Ukraine dealer. Both have branch dealerships with service centers. Other American car brands are imported from Russian and Western European dealerships.

The most common auto on Ukrainian highways has an engine volume of less than 2,000 cubic centimeters. To serve such market conditions, GM entered the Ukrainian market with Daewoo and Opel car models, which are assembled at AvtoZAZ-GM-DAT, a GM-Ukrainian joint venture located in Zaporizhzhya.

According to Ukrainian experts, as of January 2004, there were 5,560,000 cars registered in Ukraine, half of which were vehicles over 8 years old. Annually, there is a 2-3 % increase in the total number of cars in the country.

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

The main suppliers in Ukrainian cities are automotive service stations, affiliates of large dealers and automotive flea markets, which buy wrecked and obsolete vehicles for parts. Automotive flea markets are also important sources for used automotive spare parts. Used parts account for an estimated USD 70 million of the total Ukrainian automotive car market.

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1. Car Body, Engine, Fuel and Electric 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, and doors are also needed.

2. 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 USD 33 million, Imports total USD 14 million.

3. Car Filters

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

4. Tires

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

5. Automotive Glass

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

6. Car Security And Anti-Theft Devices

According to Ukrainian auto spare parts wholesalers, sales of various anti-theft security devices in Ukraine is estimated at USD 12-15 million annually. According to estimates of Ukrainian car parts and accessories sellers, the annual Ukrainian market for various car security systems is comprised of 90-100,000 anti-theft electronic systems, 50-60,000 non-removable mechanical locks and 30-40,000 removable locking devices.

7. Brakes and Parts

The Ukrainian sales potential for automobile brakes 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.

8. Shock Absorbers

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

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<http://www.autocentre.ua>

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

Building Materials (BLD)

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

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It should be noted that not all imported building products have good market 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 shingles, bituminous sarking and tar paper.

There is moderate market demand 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, Germany, and Poland.

In cement, there are numerous local producers of dry mixes but the quality is not always acceptable. Nearly all local manufacturers import chemical binding, conditioning, and coupling agents. Prices, however, for these imports are beginning to rise, opening the door for new lower-cost suppliers.

Best Sales Prospects include:

- a. Linoleum (Imported linoleum has better coloring and 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 better coloring and size variety.).
- d. Insulation (Imported mineral wool has improved packaging, size variety and pricing.).
- e. Paints (Local production is abundant for alkyd penta- phthalic oil paints, but there is a shortage in production of acrylic paint.).

Opportunities

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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 diminishing. Kharkiv, Dnipropetrovsk, Donetsk, Lviv, Odessa, and Zaporizhzhya offer potential for foreign exporters and investors interested in expanding operations to Ukraine. U.S. exporters may find it advantageous to cooperate with importers located in or oriented toward the major industrial regions of Ukraine.

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.

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

The exact size and structure of the Ukrainian computer hardware market is difficult to measure, since shadow local production and shadow imports of components remain among the key factors that determine the structure of the market. PCs assembled in Ukraine currently account for approximately 80% of the total PC market. Computer manufacturers represent less than 10% of approximately 700 companies currently operating in the local computer market. Although there are dozens of small PC assemblers in Ukraine, only a small number (10) of companies determine the profile of the local computer manufacturing industry.

Political events of late 2004, early 2005 had a negative impact on the market. In 2005, computer sales grew only 3 - 4%, which is a slowdown compared to 20-30% growth registered in 2004. Although government procurement (including education programs funded through the state budget) and corporate sector (including banking) account for more than half of the total computer market, these subsectors were the main victims of the sales slowdown. In the meantime, retail sales grew due to an increase in sales through supermarket chains. It may be expected that a sharp increase in the cost of imported fuel will have a further negative effect on corporate sector sales in 2006, while demand among small and medium-sized business customers will grow further. The home computers market will also show strong growth.

All experts underline a trend for a decreasing share of desktop systems, and increasing sales of portable systems and servers. In 2005, average prices for computer equipment declined 4-5% compared to 2004 price levels. 2005 also brought sharp changes in the notebooks market. If in previous years international brands accounted for 70% of the notebooks market, in 2005 lower prices for imported notebooks triggered a 200-500% growth in sales for international importers while many local assemblers lost their share of the market. The other feature that differentiates the Ukrainian market from the rest of Europe is that the market for pocket PCs is growing despite existing competition from smart phones.

Even the corporate market does not necessarily offer the best profit margin to the equipment supplier. Proceeds, however, from systems integration, software supply, maintenance, and repair far exceed revenues received from only hardware sales. This is why all major local computer manufacturers do their best to position themselves in the market as systems integrators rather than simply manufacturers. The government and corporate markets are dominated by major suppliers of computer equipment. The market share of international brands is much higher in this market sector than in the overall market. All systems integrators reported strong sales growth (30-40%) in the second half of 2005 with a notable increase in sales of high-end systems. However, it may be expected that this subsector will feel a strong impact from the fuel crisis of 2006 when entire industries (e.g. steel mills, chemical plants, sugar plants) will sharply decrease their procurement of IT products.

The main source of computer components for Ukrainian assemblers is Asia, while computer peripherals are mostly imported from Europe. Depending on the market subsector, the share of Intel-based computers varies from 60% to 70%, while AMD processors account for 40-30% of the market.

One of the surprises of 2005 was the growing interest in manufacturing projects by computer and electronic manufacturers. Late in 2005, Hewlett Packard announced its plans to begin manufacturing PCs in Ukraine. This project and others, if successful, will definitely reshape the market.

Best Products/Services

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Electronic components, notebooks, servers, systems integration, palm computers.

Resources

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1. Euroindex, leading organizer of IT trade shows in Ukraine - <http://www.euroindex.com.ua/index.php?m=1&lng=e>
2. Leading IT publications and catalogs - <http://www.itcpublishing.com/ua/?lang=en>
3. Association of computer clubs - <http://www.uacc.org.ua/en>

A more legitimate and transparent market for computer software is slowly taking shape in Ukraine. Enforcement of IPR legislation as well as steady growth of the Ukrainian economy in 2000-2005, and the resurrection of local manufacturing industries have generated a substantial increase in demand for computer software for industrial and business needs.

The exact size of the Ukrainian computer software market is difficult to measure, because both major subsectors of the computer software market: imported software and software development feel a severe impact from the shadow economy. Imported software dominates on the office software market and on the market of software solutions for government, businesses and industry. Market research conducted by GfK-USM company shows that operating systems, office applications, archivers, antivirus packages, and accounting programs are the sales leaders.

Windows and Microsoft Office 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. Illegal imports of pirated office software, illegal use of software licenses and domestic pirate industry production have a severe impact on the size of the legitimate software market. However, most U.S. and international suppliers of software reported strong sales growth in 2005 (e.g. 26.6% for Microsoft and 15-40% for other international suppliers). Importers of multimedia software reported a 50% growth in sales. It is especially significant, that there is a very strong and growing demand for U.S.-made sophisticated security software (estimated sales growth 30-40%). 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. One of the specific features that may indicate a new trend in the market is an impressive growth in sales to small and medium-sized businesses. In the meantime, demand on the government and corporate markets remained at the same level as in 2004.

Computer software services also play an increasingly important role. According to GfK-USM data, 24.8% of computerized entities outsource automation solutions and 38.2% of these use technical support services.

Ukraine is slowly emerging as a low cost site for high quality software development. Unofficial estimates indicate that this industry employs 25,000 programmers and many more specialists of different backgrounds and qualifications. Industry experts believe that computer software development accounts for 10-30% of IT market revenues. This means USD 150-300 million in monetary terms. Industry insiders believe that the export sales of software are between USD 70 million and USD 200 million. Average annual export sales for forty leading software-developing firms vary from USD 315,000 to USD 6 million per company. The total number of software developing firms is 1,030. Almost 300 companies specialize in offshore outsourcing development projects. Company staff varies from 10 to 380 employees.

Best Products/Services

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Operating systems, office applications, archivers, antivirus packages, and accounting programs

Resources

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1. Association IT Ukraine www.itukraine.org.ua
2. Ukrainian Association of Software Developers www.uaswd.org.ua
3. Euroindex, leading organizer of IT trade shows in Ukraine - <http://www.euroindex.com.ua/index.php?m=1&lng=e>
4. Leading IT publications and catalogs - <http://www.itcpublishing.com/ua/?lang=en>
5. Association of computer clubs - <http://www.uacc.org.ua/en>

Pharmaceuticals (DRG)

Overview

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	2003	2004	2005 (estimated)
Total Market Size	842	968	1287
Total Local Production	363	406	511
Total Exports	51	61	89
Total Imports	530	623	865
Imports from the U.S.	20	23	39

In millions of Dollars US

(Source: Ministry of Health of Ukraine)

The Ukrainian pharmaceutical market shows stable growth for the past 5 years. This growth results from increases of both imports and local pharmaceutical production.

Imported pharmaceuticals, comprising 62% of the total market in 2004, still dominate. The leading pharmaceutical exporter to Ukraine is Germany (19.7% of all imported pharmaceuticals). India holds second place (14.7%), and France is third with a 9.5% share. U.S. share in 2004 was 3%. Most multinational pharmaceutical manufacturers are present in the Ukrainian market either with representative offices or through local distributors. In 2005, Pharmak, a local Ukrainian company, began producing the first full-cycle human insulin in Ukraine with technology transfer from Eli Lilly.

The local pharmaceutical industry is increasing production and exports (mostly to Russia and 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).

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The best sold ATC2 (Anatomical, Therapeutic, Chemical 2) categories in Ukraine include analgesics, antibiotics, vitamins, cough & cold preparations, cholagogue-hepatics, phycolectics and vasotheapeutics. The best sales have been achieved by companies which have strong over-the-counter (OTC) volume.

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In late 2000, the Ukrainian government extended its deadline from for pharmaceutical producers to become GMP compliant from 2002 to 2007. 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. It should be clear in the next several years which domestic producers are likely to succeed in efforts to reach international GMP standards.

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

Electrical Power Systems (ELP)

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	2003	2004	2005 (estimated)
Total Market Size	1850	1900	2000
Total Local Production	N/a	N/a	N/a
Total Exports	N/a	N/a	N/a
Total Imports	N/a	N/a	N/a
Imports from the U.S.	240	245	251

(In millions USD. The above statistics are unofficial estimates. Other statistics are not available for this sector.)

Ukraine's power generation comes mostly from nuclear and thermal coal/gas-fired power plants, with small input from hydro and co-generation. The nuclear subsector that provides for about 50% of electricity generated in Ukraine, is state-owned and still highly dependent on Russia for nuclear fuel and essential equipment. Its Soviet-type reactors were designed to operate on Russian-made fuel assemblies. Ukraine has no indigenous nuclear fuel cycle capabilities, and for many years had to ship all of its spent nuclear fuel at a high cost for storage in Russia. In 2001, the first Ukraine Dry Storage for Spent Nuclear Fuel was put into operation on Zaporizka NPP, with Duke Engineering (US) managing this construction project. Construction of two major decommissioning facilities, Spent Fuel Storage and Liquid Waste Processing, is being finished at the Chornobyl Nuclear Plant site. The Ukrainian Government plans to build a Central Spent Fuel Storage facility at the Chornobyl site for its 15 operating nuclear reactors. In January 2005, the Ukrainian Government announced that a U.S. firm, Holtec International, won the tender to build this facility. The Government of Ukraine signed the contract with Holtec in December, 2005. Holtec technology is designed to safely store and transport spent nuclear fuel.

Ukraine's thermal power generation subsector is mostly state-controlled, with outdated equipment and lack of funding for upgrades. The only private thermal power generating company, Vostokenergo, is investing in upgrading its three coal-fired power plants. The power distribution system is 30% private, and private shareholders invest in upgrading the transmission lines, installation of efficient process management, monitoring, metering and control systems.

Major U.S. companies working in Ukraine's power sector include: AES – electric power distribution. It owns and operates Kyivoblenergo and Rivneoblenergo regional power distribution companies. Emerson Process Management, Honeywell, GE International, and American Power Systems supply automation and process controls, and non-interruptible power supply systems. Caterpillar supplies engines and gensets. Pratt & Whitney performs turbine blade refurbishment (joint venture with Paton Welding Institute). Teledyne Laars, Mestek, and Lochinvar supply water heaters and steam boilers. Taco Corp. sells water pumps.

Best Products/Services

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The best products/services for electrical power systems in Ukraine 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; accumulator batteries; assorted bearings; circuit breakers; disconnectors; support insulators; and generating sets.

Technology, equipment and software for power distribution and transmission, include: distribution substations; cable lines; electric power transmission lines; monitoring, metering and automation technologies; and SCADA systems.

Equipment is needed 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; technologies for replacing the winding for turbo generators of 1000 MW capacity; efficient steam and gas turbines and turbine auxiliaries; and process instrumentation and controls.

The following equipment is also in demand: electrical motors for feeding pumps; portal cranes and conveyor belts; low and medium capacity boilers; tubular stacks for boilers; assorted valves; super heaters; spare parts for fans; piping for boilers; steam ejectors; metering pumps; and nickel steel tubing.

Technologies are needed for alternative/renewable power including: solar heating systems and solar batteries for customers in Southern Ukraine; and technology for wind power generation, including large capacity (600 kW-1MW) wind power turbines for industrial applications and small-capacity (up to 50kW) wind power turbines for private Ukrainian consumers (farms, cottages etc.).

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Central Spent Fuel Storage facility at the Chernobyl Nuclear Plant site: Holtec International, a general contractor for this project estimates the immediate total project value at USD 150 million and long-term extended business at more than USD 1 billion. The company also says that it will export an estimated USD 80 million in U.S. content in the form of subcomponents, specialized materials, and services, including engineering, design, licensing, and the transfer of manufacturing and quality assurance infrastructures to Ukrainian subcontractors.

The Chernobyl Shelter Implementation Plan (SIP) and New Safe Confinement Construction Project: Open tenders are held for procurement of various categories of equipment and services within the SIP. The New Safe Confinement was announced for bids in late 2004; tender results are expected to be announced in early 2006. Two-year construction will cost approximately USD 200 million (including one year design and one year solving regulatory issues). USD 250 million is requested from international donors for contingency and risk management.

Khmelnitsky Unit 2 and Rivne Unit 4 (nuclear power plant units). The post Start-up Safety and Modernization Program will be financed with a EUR 34.8 million sovereign-guaranteed loan from EBRD. The Responsible agency is Energoatom, the National Nuclear Power Generating Company.

Hydropower Rehabilitation Project: total cost USD 374.5 million, including a World Bank loan of USD 106 million (approved in June 2005). The main objective of the project is to improve the operational stability and reliability of the power supply by increasing the regulatory capacity, efficiency, and safety of hydroelectric plants. This includes refurbishing hydroelectric units and associated plant equipment at nine hydroelectric plants; refurbishing high voltage equipment for nine switchyards connected to these hydroelectric plants; rehabilitating and upgrading work at existing dams, which entails the installation of new dam safety monitoring systems, and rehabilitating drainage facilities and spillway gates on six dams on the Dnipro River and one dam on the Dnister River; and establishing a corporate-wide Management Information System at Ukrhydroenergo (UHE). The responsible agency is Ukrhydroenergo, the national hydropower generating company.

The Kyiv District Heating Improvement Project: total cost USD 250 million includes refurbishing and increasing reliability of the heat supply system in Kyiv; and on-going open tenders for procurement of necessary equipment and technology. The responsible agency is Kyivenergo Power Generation and Distribution Company.

The Kyiv Public Building Energy Efficiency Project is currently being implemented with on-going open tenders for procurement of necessary equipment and technology. The responsible agency is Kyiv City State Administration. The total project cost is about USD 30 million. Project objectives include improving energy efficiency in schools, hospitals, kindergartens, and administrative and public buildings of Kyiv City.

The Odessa High Voltage Grid project: In November 2005, EBRD approved a EUR 28.4 million loan. The responsible agency is Ukrenergo National Energy Company.

The Galtaftogaz Gas Filling Stations project: In October 2005, EBRD approved a EUR 21.3 million loan. The project contact is the private company Galnaftogaz OJSC.

Industrial Energy Efficiency projects: In June 2005, EBRD approved a EUR 16.5 million loan. The responsible agency is UkrESCO state-owned energy service company.

Major opportunities (largely dependent on financing from international financial institutions) are available for upgrading the centralized municipal heating systems of most Ukrainian cities. These are worn-out and unreliable. The Pavlograd City Council, Odesateploenergo, DonetskMiskTeplomerezha, Kharkivteploenergo and Ukrenergoconsulting companies are looking for loans/investments and equipment suppliers for their city district heating upgrades and CHP plant refurbishing projects. The Mayor of Berdiansk is promoting an investment project of decentralized city heating and installation of individual boiler units. The Yalta City Council and Kyiv City Council are looking for investments and technology for their waste-to-energy plant projects.

Resources

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www.mpe.energy.gov.ua - Ministry of Fuels and Energy of Ukraine
www.ukrenergo.energy.gov.ua - Ukrenergo National Energy Company
www.energoatom.kiev.ua - Energoatom National Nuclear Power Generating Company
www.imepower.com - INEKO Energy Investment Company: power sector information
www.e-i.com.ua - Energobusiness Magazine: energy sector news, statistics and facts

Food Processing and Packaging Equipment (FPP)

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Considering its size, the Ukrainian food industry represents a tremendous potential for U.S. companies. State Statistics of Ukraine indicate direct foreign investment in the food industry in 2004 totaled USD 988.3 million, which is 15% of total direct investment in all sectors in Ukraine.

Food processing is one of the fastest-developing sectors of Ukraine's economy, growing at an estimated 20-30 percent annually. 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 been transformed into a relatively developed market featuring a wide range of both international and local brands. In the last five years more than ten supermarket chains have started operating in Ukraine. Nearly 97% of foodstuffs consumed in Ukraine are produced domestically. These products include meat; poultry and dairy products; macaroni; confectionery and bakery products; alcoholic and non-alcoholic drinks; and canned meat and vegetables.

The need for food processing and packaging machinery continues to rise steadily and is expected to grow for the foreseeable future. There is no official data on the size of the Ukrainian food processing and packaging machinery market.

Best Products/Services

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The market for processing and packaging equipment in Ukraine has grown with the demand for safe, attractively packaged food products with a 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.

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 declining because they offer little cost advantage over Western European manufacturers.

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The market for food processing and packaging equipment in Ukraine is likely to expand in the next several years, especially in the following areas: (a) equipment for higher value-added processing or secondary processing; (b) energy-efficient equipment; (c) small-capacity production equipment (especially for large agribusinesses that have split into small and medium-sized companies); and (d) packaging equipment that ensures a longer shelf life and proper hygiene for processed products. The best sales prospects for FPP (including used or refurbished equipment) are: dairy equipment, baby food production equipment, pasta and bread-making equipment, equipment for breweries, equipment for producing and bottling beverages, fruit and vegetable processing equipment, vegetable oil extraction and refining equipment, and equipment for candy production and packaging.

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State Foodstuffs Department of the Ministry of Agrarian Policy of Ukraine:
<http://www.fooddept.gov.ua/> (Ukrainian language only)

Agribusiness news:

<http://www.agriukraine.com/>

<http://www.agroperspectiva.com/en/>

Collocated agri-food trade shows – Kiev AgriHort (agricultural machinery and chemicals) and UkrProdMash (food and drink processing and packaging technologies and equipment). Show organizers web-sites: www.bto-exhibitions.nl and www.pe.com.ua

Medical Equipment (MED)

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	2003	2004	2005 (estimated)
Total Market Size	290	330	432
Total Local Production	220	240	288
Total Exports	100	120	150
Total Imports	170	210	294
Imports from the U.S.	25	35	40

Figures are in millions of U.S. Dollars.

(There are no accurate statistical data on the size of the Ukrainian medical equipment market. The above statistics are unofficial estimates.)

Imported equipment dominates the market. The major exporter to Ukraine is Germany. 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.

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The 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).

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The Ukrainian market is receptive to high-quality, advanced diagnostic and therapeutic equipment. Innovative technologies such as laser-optics in vascular surgery, urology, gastroenterology, dermatology and neurosurgery, and new diagnostic devices are becoming more popular. Modern equipment offering ease of use and cost savings is required in the fields of microsurgery, radiology and biomedicine.

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

Oil and Gas Field Machinery (OGM)

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	2002	2003	2004 (estimated)
Total Market Size	1210	1250	1290
Total Local Production			
Total Exports			
Total Imports	70	79	88
Imports from the U.S.	23	30	37

(Figures in millions of U.S. Dollars. The above statistics are unofficial estimates. Official statistics are not available for this sector.)

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 at 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 the technology to drill underwater deeper than 70-80 meters (200 feet). Although Ukraine has the second largest refinery capacity in the CIS, with six crude oil refineries of about 53 million tons capacity 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 – automation and control systems; Caterpillar, Baker Hughes (Baker Oil Tools, Hughes Christensen), FMC, ReedHycalog, Stewart & Stewenson, Smith Bits, Weatherford, Clearwater Inc. – equipment and technology for oil & gas production and stimulation, Exxon-Mobil, and Chevron-Texaco – motor oils and lubricants.

Best Products/Services

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These include technologies for gas production and storage; gas transport infrastructure (in particular, pipeline construction equipment); compressors and pumps for pipeline applications; gas transmission systems; gas pipeline leak control systems; and gas pipe fittings and applications;

In addition, the following equipment is in demand: oil & gas pipeline 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 pumps (below 6,000 feet); and drilling technology for offshore projects deeper than 200 feet.

Finally, the following equipment is needed: equipment for atmospheric-vacuum oil refining; modernization and increasing 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; and fuel level monitoring and accounting systems.

Opportunities

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The largest projects in the oil & gas sector include the following:

PSA for Offshore Oil & Gas Exploration & Extraction

On December 24, 2005, Ukraine officially announced a tender for a Production Sharing Agreement (PSA) license for off-shore exploration and production in the Prykerchensky block of the Black Sea. The 90-day tender bid period ended March 24, 2006 - two days before Ukraine's parliamentary elections. A new PSA tender committee was formed under the leadership of First Deputy Prime Minister Stanislav Stashevskiy. The tender was awarded on April 19 to the Houston-based company Vanco International. The committee serves as a one-stop shop and has final authority to develop tender

documents, receive and review tender offers, name the winner and negotiate the Production Sharing Agreement. The Cabinet of Ministers must approve the final negotiated Agreement between the winner and the GOU. During the 3-month bid period, companies submitted bids on the 13,000 square kilometer block. There was a USD 10,000 entrance fee to bid. Tender documents were available for USD 3,000, and geological data is available for USD 100,000. All information was available from Ukraine's State Geological Service. The tender winner must immediately pay Ukraine a bonus of USD 500,000 and invest a minimum of USD 15 million in geological prospecting. If commercial resources are discovered, the investor is obliged to pay Ukraine another bonus of USD 2 million. The State Geological Service, which is part of the Ministry of Environment, is the point of contact for geological information about the tender. Deputy Minister of Economy Volodymyr Ignashenko is the point of contact for any economic or financial questions bidders may have. A second PSA license for off-shore exploration and production is expected to be announced in 2006.

Refineries Rehabilitation & Upgrade

The Ukrtatnafta/Kremenchuk, TNK/LINOS, Lukoil/Odesa and Alliance Group/Kherson refineries are undergoing capacity rehabilitation and upgrade projects in different stages. The major Ukraine oil production company, Ukrnafta, is looking for partners to reconstruct and upgrade Kachanivsky Gas Refinery and build a new gas processing plant. The major gas production company, Ukgazdobycha, plans to upgrade its three gas processing plants, including Shebelinsky Gas Refinery.

Crude Oil Transit by Pipeline

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.

Gas Transit and Distribution by Pipeline

The major Ukraine gas transit company, UkrtransGaz, is attracting foreign investors and equipment suppliers to rehabilitate and modernize the Ukrainian gas transportation system, including building co-generation units on gas compressor stations and increasing the efficiency of compressor stations. The Ukrainian Government is ready to negotiate a gas transit consortium to rehabilitate and operate the main gas pipeline that transits Ukraine. This pipeline delivers nearly 40% of Europe's natural gas.

Coal Bed Methane (CBM) Development

In August 2005, The U.S. Trade and Development Agency (USTDA) awarded a USD 585,570 grant to the Donetsk Regional Administration for a feasibility study on a proposed Coal Mine Methane/Coal Bed Methane (CMM/CBM) project in the Donbas Region of Ukraine. The major Ukraine private industrial corporation, Industrial Union of Donbas, and its affiliated company Ecomethane are looking for large suppliers with project financing capabilities for a CBM development project in the Donbas region.

Resources

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www.mpe.energy.gov.ua - Ministry of Fuel and Energy of Ukraine
www.naftogaz.com - Naftogaz Ukrainy National Joint-Stock Company
www.ukrtransnafta.com - Ukrtransnafta National Joint-Stock Company
www.nadraukrayny.com.ua - Nadra Ukrainy State Company
www.ukrnafta.com - Ukrnafta Open Joint-Stock Company
www.blackseagas.com/eng/ - Chornomornaftogaz State Joint-Stock Company
www.geoinf.kiev.ua - Geoinform State Scientific & Production Enterprise
www.e-i.com.ua - Energobusiness magazine: energy sector news, statistics and facts
www.oil-gas.com.ua - Nafta i Gaz (Oil and Gas) Magazine
www.upeco.com - Ukrainian Petroleum Consultants (UPECO)
www.ukroil.com.ua - Psychea Analytic Center: information on oil & gas market

Pollution Control Equipment (POL)

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Although significant, the pollution control equipment market in Ukraine cannot be calculated using traditional methods. Market size analysis is complicated by an absence of precise statistical data.

Ukraine wishes to create a 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 is 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. Most of the projects, however, have been postponed or are only in the feasibility study stage.

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Ukraine has not developed a self-sufficient national infrastructure for waste management and disposal. The market for waste recycling equipment is in the developmental phase. A positive trend in increasing the proportion of recovered waste started in 2000 and was confirmed. Some 52 types of waste are now recovered or recycled, which account for over 60% of waste generation (2003 data). The most significant of these is the use of coal waste and steel slag as construction materials.

Virtually all municipal water treatment facilities and industrial pre-treatment systems need replacement and/or 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 urgently needed.

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Significant strategic opportunities exist for U.S. companies in this emerging market, which should be studied on a case-by-case basis.

The most realistic prospects include:

- * safety improvements at industrial and municipal plants;
- * water conservation projects;
- * improvement of filtration efficiency;
- * environmental investments in the areas of high economic and tourist value.

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Ministry for Environmental Protection of Ukraine: <http://www.menr.gov.ua>

Security and Safety Equipment (SEC)

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American-made security and safety equipment is one of the most promising industrial sectors for export to Ukraine. As domestic manufacturers are unable to meet demand, both in terms of quantity and quality desired, U.S. exporters may find that the local market offers many opportunities, especially in the high-tech end of security products.

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 and corporations has been accompanied by an increased demand for security software, safety deposit boxes, safes, metal detectors, pagers, smoke detectors, and sophisticated turn-key security and access control systems. It is especially significant, that there is a very strong and growing demand for U.S. made sophisticated security software (estimated sales growth 30-40%). Ukrainian companies are often willing to pay top dollar for an effective security package, as seen by the proliferation of Ukrainian security companies. 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 importation of security and safety equipment requires certification and licensing from relevant Ukrainian government agencies which is often a cumbersome process.

The local market also evidences a growing demand for high-tech antiterrorist equipment, which is not manufactured locally. Customs, railroads, airlines, airports, state law enforcement agencies and private security companies show a growing interest toward advanced surveillance and access control systems.

The right choice of a local partner/distributor and close cooperation with the Commercial Section of the U.S. Embassy from the beginning of project development, are advisable to guarantee a successful implementation of security related projects. U.S. exporters should also be aware that the exportation of some security items to Ukraine is subject to export licensing by the U.S. Department of Commerce (see www.export.gov).

Best Products/Services

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Access control systems; equipment for detection of explosives and drugs; security software for corporate customers and banking; smoke detectors; and perimeter control systems.

Resources

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1. The State Security Service of Ukraine - <http://www.sbu.gov.ua/eng/>
2. The Ministry of Interior of Ukraine - http://www.kmu.gov.ua/control/en/publish/article?art_id=89480&cat_id=73007
3. BEZPEKA (Security). Leading Ukrainian annual trade show on safety and security. Directory of Participants - <http://www.bezpeka.ua/>

Telecommunications and IT are important infrastructure sectors in Ukraine. Six years of positive economic growth along with foreign and domestic investments in telecommunications made over the last 10 years have brought marked changes to the Ukrainian telecom industry, particularly in mobile wireless and Internet. However, despite obvious improvements in telecom infrastructure, the lack of transparency and slow decision-making in licensing and frequency allocation, continuing delays with the privatization of Ukrtelecom (the national telecom carrier), and ongoing disputes between Ukrtelecom and private telecom operators seriously hurt the development of the entire telecom industry. The industry lags far behind the rest of the national economy in its movement toward liberalization, transparency and openness for foreign investment. Although private fixed-line telecom providers are slowly overcoming Ukrtelecom's existing monopoly on the local loop infrastructure, their market shares are still too small to trigger major changes. Ukrtelecom's privatization is scheduled to happen in 2006 and, if it occurs, it will reshape not only the fixed communications market but also the mobile communications industry, because Ukrtelecom was awarded Ukraine's first 3G operators license at the end of 2005.

Mobile Telecommunications

As of August 1st, 2005 five Ukrainian GSM operators - UMC, Kyivstar GSM, Astelit (Life), Golden Telecom GSM, and Ukrainian Radiosystems (Wellcom) were servicing almost 21 million customers, which is twice as many as the number of Ukrtelecom's fixed-line clients. Total investment in Ukraine's mobile industry reached USD 3 billion including USD 1.6 billion invested in 2005. Two leading mobile operators, UMC and Kyivstar, had over 10 million customers each, while other operators lagged far behind. The market penetration for mobile communications is over 68%. It can be expected that with this level of market penetration, growing competition and overwhelming dominance of the voice component in the mobile traffic, the numeric growth of the GSM customer base will slow, and mobile operators will consider new strategies to increase their revenues. In preparation for the Ukrtelecom privatization, regulatory authorities gave a green light to conversion and commercial licensing of some areas of the radio spectrum (1935-1950 MHz, 2015-2020 MHz, 2125-2140 MHz). They issued Ukrtelecom a license for 3G (IMT-2000 CDMA or UMTS/WCDMA) mobile network deployment in Ukraine. Although two major mobile carriers also expressed interest in obtaining a 3G license and spectrum resource, it is very unlikely that this costly technology will find a sufficient customer base in Ukraine in the near future.

CDMA networks are limited to the fixed wireless loop, and although CDMA operators continuously request the government's permission to enter mobile, their efforts are countered by GSM operators and the lack of financial resources needed to upgrade their fixed networks and convert them to mobile. Industry experts view WiMAX as a provisional cost effective alternative to both mobile CDMA and 3G.

The boom of mobile communications created good opportunities for peripheral businesses servicing mobile industry needs such as the retail sale of mobile handsets and accessories. Retail chain stores specializing in products for mobile communications are booming throughout the country. Reportedly, there will be six million mobile phones sold in Ukraine in 2005. Estimated 2005 annual sales of mobile handsets will exceed USD 700 million.

Internet & Data Transfer

Internet services are one of the leading, albeit small (in monetary terms), subsectors of the Ukrainian telecom industry. Reportedly, as of July 2005, there were 6.5 million Internet users. This number, if compared to 5.9 million Internet users registered in December 2004, shows that Ukrainian Internet use grew 10% in the first 7 months of 2005. In 2004 there were 28,800 web sites registered in Ukraine. Unfortunately, the geographic distribution of Internet users is very uneven. Kiev, the capital, accounts for 55.4%. The share of six other big cities (Dnypropetryvsk, Odessa, Kharkyv, Lvyyv, Donetsk, Zhaporyzhzhya) is 32.16 while the rest of the country accounts for only 12.4% of the total number of Internet users.

The analysis of Internet searches shows that job search and chats are the most popular search objectives. They are closely followed by Kiev maps and weather forecasts.

Late in 2005, Ukraine's communications regulatory body took the first steps toward liberalizing IP telephony. This once booming subsector has been largely stagnant since 2001 due to the high cost of an operator's license and a lack of new licenses.

WiFi and WiMAX are quickly gaining in popularity, although their growth is limited by a narrow customer base and ownership disputes over the spectrum used by WiMAX technology (3,4-3,7 GHz).

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Equipment and software for MC, WiMAX, IP telephony

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The privatization of Ukrtelecom is on the 2006 agenda, although legal controversies and fierce opposition by the Ukrainian Parliament to the government's plans to sell Ukrtelecom through an open auction may make this objective unachievable. However, this privatization may represent a great opportunity and when implemented will reshape the market. In preparation for Ukrtelecom's privatization, the regulatory authorities may decide to issue 3G mobile licenses to leading mobile operators. This decision, along with a 3G license already granted to Ukrtelecom and anticipated radio spectrum conversion, will open major opportunities for U.S. suppliers of telecom equipment and software. There also may be a major breakthrough in IP telephony development if new licenses are granted without delays and on a transparent basis.

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1. Official web site of the National Commission for Communications Regulation of Ukraine - <http://www.nkrz.gov.ua>

2. Official web site of the State Department for Communications and Informatization of the Ministry of Transportation of Ukraine - <http://www.stc.gov.ua/>
3. Telecom Club (regular convention of telecom executives and equipment suppliers) - <http://www.telecom-club.org.ua/>
4. UMC - http://www.umc.ua/index_e.html
5. Kyivstar - <http://www.kyivstar.net/site.php/en>
6. Golden Telecom - <http://www.goldentele.com>
7. Wellcom - <http://www.welcome2well.com/eng/main/index.htm>
8. Life (Astelit) - <http://www.life.com.ua/index.php?lng=en>
9. Ukrtelecom - <http://www.ukrtelecom.ua/>
10. Utel - <http://www.utel.com.ua/english>
11. Aventures Group - <http://www.aventures.biz/en/>

Travel and Tourism (TRV)

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Ukraine represents a potential market for the U.S. travel industry with 47 million residents and a gradually developing middle class. The Ukrainian economy has been steadily growing by 4 to 12 percent annually since 1999, allowing households (mainly urban) to spend more of their disposable income on travel. Foreign tourism in Ukraine has been growing by 4 to 13 percent since 1997. Of 16 million Ukrainians who traveled to other countries, only 2.8 million traveled for tourism. The Ukrainian Government certified over 3,700 private travel agencies with some 4,000 retail outlets. However, only a handful of them highlight the U.S. as a tourism destination in their promotional catalogs.

The United States remains an unexplored destination for Ukrainian vacationers. Information about U.S. tourism attractions is only occasionally published in the Ukrainian travel press. Mass awareness of U.S. attractions is based on U.S. movies and magazines. American tourism products are practically not represented in Ukrainian travel and tourism shows. To the general public, spending a vacation in the United States is considered expensive. However, many Ukrainians spend thousands of dollars on holidays in such remote areas as Southeast Asia, Bali, Seychelles, South Africa and Kenya, etc. At present, U.S. destinations do not compete in the market. Expensive airfares and complicated visa procedures are believed to be the two main factors diverting Ukrainians to other vacation destinations.

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During 1998-2000, Ukrainian Government statistics reported a sharp growth in travel to the United States with a peak of 38,700 visits in 2000. In 2001, the total number of Ukrainian visits to the U.S. dropped to 31,000, shrank by another 23.5 percent in 2002 to 23,700, and fell to under 10,000 in 2003. The number grew to 15,500 in 2004. Conversely, the Travel Industry Association (TIA) reports impressive growth in Ukrainian arrivals to the U.S. from 12,100 in 2002 to 15,100 in 2003 and to 18,500 in 2004. The U.S. arrival statistics are based on I-94 Forms (vs. Ukrainian statistics which are based on input from airlines and the border control authority), and are believed to reflect an accurate picture. The increasing number of visa applicants and visa issuances in U.S. Embassy Kyiv also supports this trend.

Ukraine also offers good trade and investment opportunities for companies involved in tourism infrastructure development. Ukraine's tourist accommodation facilities include nearly 1,300 hotels and more than 2,000 health resorts. However, the quality of service and the number of hotel amenities are well below the typical expectations of Western tourists. In addition, the prices are very high in relation to the quality of service offered. Kyiv was one of the few major world cities without international hotels until September 2005 when the Radisson SAS hotel opened. A delivery date for Hyatt St. Sophia in Kyiv has been postponed numerous times, with the latest delivery date announced for May 2006. Hilton Hotels and Marriott International have several projects in Kyiv at the inception stages. Red tape and corruption on local levels, corporate non-transparency of local partners, unregulated land ownership, and lack of investment capital are the main deterrents in developing international hotels in Ukraine. Ukrainian law prohibits ownership of land by foreigners, and, therefore, all existing hotel projects must be developed on the basis of a land lease term of 49 or 99 years.

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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. In Crimea alone, proceeds from tourism comprise more than half of the Crimean Government budget.

U.S. tour operators interested in attracting Ukrainian visitors should actively promote themselves among the tourism companies and travel press in this market. Participation in the Ukrainian primary travel and tourism show UITT (first week in April) provides U.S. firms and organizations the opportunity to promote their services and destinations in the market. Familiarization (FAM) trips to the U.S. (both press and trade) are other effective promotional tools that U.S. companies should use.

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State Department of Tourism of the Ministry of Culture and Tourism of Ukraine:
<http://www.tourism.gov.ua>

Main T&T Trade Shows:

1. UITT (Ukraine International Travel & Tourism), held annually during the first week in April: www.uitt-kiev.com
2. Ukraine Travel Market, held annually during the second week in October: <http://www.autoexpo.com.ua/eng/ukraine.html>
3. Crimea International Travel Fair, held annually during the first week in March in Yalta, Crimea: <http://www.expo.crimea.com>

A.T. Kearney (<http://www.atkearney.com>), a U.S. management consulting company, ranked Ukraine the third most prospective retail market in the world in the 2005 Global Retail Index (up nine points compared with a 2004 study). Ukraine was given the highest points based on the criteria of time pressure for market entry (for global retailers) and market saturation (low market saturation offering significant market entry opportunities for global retailers). Corruption, bureaucracy and a non-transparent business environment kept foreign companies at bay, allowing local retailers to grow. Local retail groups dominate the market, but the situation will likely change as global retailers make a long-expected entry.

According to the Ukrainian State Statistics Authority (Derzhcomstat), the size of the local retail market in 2004 was UAH 66 billion (roughly USD 13 billion). This demonstrates a 19% growth compared with 2003 (20% growth in 2003, 15% in 2002, and 13% in 2001). In 2005 the retail market is expected to grow further by some 15%. In Kyiv, which alone accounts for 15% of the nationwide retail market, turnover increased by an impressive 37% in 2004 (25% in 2003, 15% in 2002), and is likely to slow to 20% growth in 2005. The actual size of this fast-growing industry, however, 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 in Ukraine is between USD 50 and USD 75 billion.

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

In the 15 years since Ukraine's independence, the country has moved from dingy Soviet-style stores with empty shelves and snarling service to modern shopping malls and hypermarkets. But Ukraine's retail transformation is still far from complete and will likely face changes as foreign competitors begin to enter the market. Kyiv, Ukraine's largest and wealthiest city, is at the cutting edge of the changes in the sector. In total, Kyiv has 550,000 square meters of modern shopping space, far below the totals for Central European cities such as Prague and Warsaw. In 2005, an additional 220,000 square meters of shopping malls are expected to be commissioned in Kyiv.

The Ukrainian retail sector is represented in various formats, ranging from least civilized (street markets, and kiosks) to hypermarkets. Currently, the retail market is still dominated by small and medium-sized traditional stores, open-air markets, and kiosks. However, these venues, which symbolize the past, gradually surrender to large multi-functional shopping centers. Ukrainian popular supermarket chains are Fozzy Group (Fozzy, Silpo, Fora), Garantia Trade (Fourchette), Kviza Trade (Velyka Kyshenia) and Megamarket with stores mainly in Kiev, and Dnipropetrovsk-based ATB Market which is the largest in southern and eastern Ukraine.

In the supermarket segment Austrian BILLA, and Dutch SPAR pioneered the market in 2002, opening their first stores around the country. In 2004, both international chains diversified their network in central and eastern Ukraine. METRO stores opened in Kyiv in 2003 and currently are expanding to Dnipropetrovsk, Kharkiv, Odessa and Lviv. The Russian-based retail chain Perekryostok (Alfa Group) announced the acquisition of Ukraine's second largest retail chain Fourchette in December 2005. Other foreign retailers reportedly exploring Ukraine are Carrefour (France), VP Market (Lithuania), CBA (Hungary), and Pyaterochka (Russia).

Do-It-Yourself (DIY) outlet centers appeared in the Ukrainian retail arena only in 2003, but quickly gained popularity. In Kyiv only, 2004 sales through DIY stores were roughly USD 385 million, up 45% compared with 2003. The market share of open-air markets of construction and interior materials shrank to just 15% in Kyiv, which was a dominant retail format as early as 2000. Experts estimate that Kyiv needs five or six additional DIY outlets (12,000 – 14,000 square meters each) in the near future, to meet the market demand.) The Swedish powerhouse IKEA plans to launch a megastore in Kyiv's southeastern suburbs.

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International commercial property management consultant Colliers International estimates that the demand for retail space will continue to exceed the supply for the next three years. Kiev may require another 350,000 square meters of retail space in 2006-2007. It will take another 10 years to saturate the market with quality retail space.

The transitional period of dynamic growth in Ukraine's retail sector provides U.S. producers and suppliers with a unique opportunity to tap into a rapidly evolving market. Ukraine may offer good sales opportunities for U.S. manufacturers and suppliers of supermarket equipment (cash registers, conveyors, bar-coding machines, scanners, ATMs, security systems, refrigerators and freezers, etc.) Kyiv, Dnipropetrovsk, Donetsk, Kharkiv, Odessa, and Lviv provide good sales opportunities for U.S. retail chain developers and equipment suppliers. It is important to develop reliable working relationships with trustworthy Ukrainian business partners. This requires research, thorough due diligence, and expert advice from reliable local sources.

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Ukrainian Association of Retail Centers: <http://www.ua-retail.com>

Real Estate Solutions: <http://www.retail.com.ua/>

Colliers International in Ukraine: <http://www.colliers.com/Markets/Ukraine/>

"MaRHo 2006" Prime Ukraine's Trade Show in the retail equipment category: <http://marho.euroindex.ua/indexe.php3>

Ukraine is a country of vast agricultural potential with a population of about 48 million. In area, Ukraine is the second largest country in Europe after Russia. Nearly 97% of foodstuffs consumed in Ukraine are produced domestically. These products include meat, poultry and dairy products; macaroni, confectionery and bakery products, alcohol and non-alcoholic drinks, canned meat and vegetables. Consumption of meat, dairy products and fruits significantly decreased since the early 1990s with a slight recovery in recent years.

Since independence, the quantity and value of U.S. food and agricultural product exports to Ukraine has varied widely. Poultry meat, for both retail sale and further processing, has been the dominant U.S. export item throughout this period. Although there is substantial unmet demand among Ukrainian consumers, low official annual per capita income severely limits the number of Ukrainian consumers who are able to expand food product choices. However, future prospects for increased consumption of imported agricultural products appear good because of Ukraine's economy.

The Foreign Agricultural Service in Kiev (FAS/Kiev) has identified eight (8) consumer-oriented best prospect items for export to Ukraine: poultry meat, pork, high-quality beef, seafood, pet food, wine, snack food, livestock genetics and seeds for planting.

1. **POULTRY MEAT.** In March 2005, Ukraine eliminated tax privileges associated with the Free Economic Zones that previously allowed the importers to circumvent exorbitantly high import tariffs. This resulted in a precipitous increase in real import duties for poultry and created a significant obstacle for U.S. producers, jeopardizing their plans for further export expansion. The market situation for U.S. suppliers is compounded because import duties for chicken parts are significantly higher than for whole chickens. The price difference between the domestic price of poultry meat in Ukraine and the world price proved to be the motivating factor for importing poultry products illegally. The quickly growing domestic industry will be unable to satisfy rising domestic demand in 2006 and imports (both legal and illegal) of leg quarters and poultry cuts will persist. Poultry remains one of the best prospect items despite the current barriers.

2. **PORK AND BEEF.** In March 2006, the U.S. and Ukraine reached agreement on a protocol for U.S. red meat exports. There are significant shortages of red meat and high domestic prices in Ukraine. A prolonged meat crisis in Ukraine prompted the government to introduce export licensing in October 2004. This market tool proved to be inefficient in 2005, but remains in place for 2006. As with frozen poultry, relatively high import duties remain the major trade barriers. When a reasonable tariff rate is applied, then premium quality U.S. beef and pork will supply Ukraine's HRI sector. Cheap cuts of U.S. beef and pork as well as mechanically de-boned meat will also be welcomed by Ukrainian companies in the meat processing business since, currently, these inputs are in short supply.

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/Regulations_&_Policies/Ukraine_Requirements/index.asp

3. FROZEN SEAFOOD. As disposable incomes begin to rise, so has the demand for high quality seafood. The significant import tariff decrease that took place in August 2005 opened new market opportunities for U.S. exporters in the traditional surimi, salmon and caviar markets as well as new ones in the crustaceous and delicatessen seafood segments. Growing interest in Alaskan pink and chum salmon as well as for whiting and Pacific sardines explains the almost 170% increase in the value of U.S. seafood product exports to Ukraine in 2005. Now the U.S. represents over 7% of the import market and its share is quickly growing. Despite significant seasonal market fluctuations and an underdeveloped cold storage chain, Ukraine's market looks very promising to U.S. companies. FAS Kiev expects that interest in other U.S. fish species will increase and demand will grow for other U.S. seafood products in 2006. In 2004, FAS Kiev negotiated 5 export certificates and successfully resumed trade in seafood, which was halted in April 2004 due to sanitary concerns.

4. PET FOOD. With a dog population over 5.5 million and a cat population over 7.4 million in 2005, Ukrainian pet owners are increasingly willing to purchase high-quality pet food rather than feed their pets table scraps. Most of the demand for pet food is concentrated in urban areas where people appreciate the benefits of prepared food because of their hectic lifestyles. In 2005, U.S. pet food imports rose almost 40% in value. U.S. exporters have strong positions in the upper and middle market segments where their products compete mostly with German and French foods. The lower market segment is occupied by Russian products and emerging Ukrainian producers. The export of U.S. pet food is expected to grow both in value and volume in 2006. Emerging Ukrainian supermarket chains will be the leading distribution outlets in 2006 driving specialized stores to the second position and open-air pet markets to the third.

5. WINE. Despite numerous protective trade restrictions, wine imports into Ukraine are rising. While Ukrainian consumers have recently become acquainted with wines from the Americas, traditional wine suppliers from Moldova and Georgia continue to increase their market shares. A shift in consumer preferences toward dry wines, coupled with rising incomes could benefit U.S. wines that are poised to occupy a niche market within the HRI and high-end retail sectors. Relatively high import tariffs on grape wines ranging from 2 to 3 Euros per liter plus a 20% value-added tax prevent U.S. wines from capturing a strong position in the lower and middle market segments.

6. 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, especially because young urban Ukrainians' discretionary incomes continue to increase. Ukraine's expanding food processing sector demands increased quantities of food ingredients for new and innovative products. U.S. almonds and raisins are welcomed by confectioners but have failed to become a popular snack food.

7. LIVESTOCK GENETICS. Ukraine's livestock industry has suffered enormously over the last decade due to low efficiency and sales market loss. Herd numbers are on the

decline with no or little signs of recovery. Concentration of the animals in private households versus big industrial enterprises led to significant worsening of the genetic potential of Ukrainian pigs and dairy cows. A good sales opportunity exists for U.S. suppliers as more profit-oriented companies enter the hog and dairy businesses. At the moment, the market for high quality livestock genetics is limited by large agricultural companies with profitable dairy or hog enterprises. The market for lower quality genetics exists within numerous households, but it is very price cautious and U.S. exporters face fierce competition from domestic producers. In 2005, the United States improved its position as one of the major commercial suppliers of dairy genetics despite complex veterinary issues with animal diseases. To date, supplying porcine genetics is prohibited because of the absence of a negotiated protocol.

8. PLANTING SEEDS. Despite rigid variety registration requirements, Ukraine's market for imported planting seeds increased from USD 30 million in July 2002-June 2003 (marketing year 2002-2003) to USD 56 million in July 2003-June 2004 (marketing year 2003-2004). The market continues to provide promising opportunities for U.S. suppliers. According to official U.S. statistics, exports of planting seeds to Ukraine increased from USD 0.8 million in January – October 2004 to USD 7.1 million in January-October 2005 with corn, sunflower seeds and sorghum seeds leading the way. There are also opportunities to supply high quality vegetable seeds, sweet corn and non-GMO soybean seeds because domestic supply is insufficient to meet demand for these types of seeds. Most seeds enjoy duty-free entry into Ukraine. To learn more about particular import requirements please contact the Foreign Agricultural Service Office in Ukraine at agkiev@usda.gov

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Chapter 5: Trade Regulations and Standards

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Import Tariffs

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As a rule, all imports are subject to payment of customs duty. The only exception applies to foreign investors who contribute qualified foreign investment into a Ukrainian resident company's authorized capital in exchange for the ownership rights in such company.

Import tariffs generally range from 2 percent to 50 percent. Combined with a high value-added tax (VAT, currently 20 percent) and excise taxes, these charges can act as a hindrance to U.S. exports to Ukraine. Import tariffs are particularly high with respect to petroleum products (5-40 EUR/ton) and distilled spirits (7.5 EUR/liter).

Excise taxes generally range from 5 percent to 300 percent. Five categories of imports were subject to discriminatory excise tax in 2004: alcohol, beer, tobacco, petroleum products, and automobiles. Most of the discriminatory excise taxes that existed were eliminated in 2005. However, discriminatory excise taxes still hinder U.S. exports of wine and grape spirits to Ukraine. Excise duty rates are assessed as a percentage of the sum of the declared customs value, customs duties, and 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.

Firms complain that the VAT system is poorly administered and some firms, particularly exporters, report that their VAT refund claims are 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, imports of materials and equipment used for the development of domestic ship-building until 2005, imports of materials and equipment and exports of domestically produced space equipment until 2009, imports of materials and equipment used for the development of the special chemical and ammunition production industry (excluding excisable products) until 2010, imports of goods used for the development of the domestic automobile construction industry and exports of domestically produced or assembled cars and compartments (under the condition of making at least a USD 150 million investment) until 2008, the sale of recreation services in Crimean resorts until 2005, and business development and employment creation in Slavutich (near Chornobyl) until 2004. Because 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.

Ukraine continues to maintain a number of barriers with respect to imports, including discriminatory fee and certification regimes. These barriers are being slowly removed as Ukraine undertakes reforms in the context of WTO accession negotiations. Non-tariff barriers include non-transparent standards, cumbersome procedures for phytosanitary certification, and import licenses. The government of Ukraine restricts imports of a number of U.S. agricultural products, allegedly for reasons of food safety. Ukrainian Chief Veterinarian abruptly banned the importation of U.S. poultry and red meat, alleging that several U.S. production practices were not in accordance with a new interpretation of existing Ukrainian veterinarian requirements. U.S. poultry sales were resumed in 2004. Exports of dried-egg products are restricted allegedly due to salmonella. In addition, bans on producers of biotechnology may cost American farmers USD 2 million in lost sales of corn and soybean.

Sales of U.S. non-agricultural goods and services, including agricultural and food processing equipment, electrical power equipment and oil and gas pumps, are generally not hampered by non-tariff barriers.

Import Requirements and Documentation

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Despite some procedural improvements made by Ukrainian Customs Office in early 2005, 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.

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;
- certificate of origin of goods;
- 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.

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 Environmental Protection (if such substances are supplied in sprays);
- the Ministry of Health (for pharmaceutical products, cosmetics, and hygiene products) and the Ministry of Environmental Protection (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 Environmental Protection (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).
- The Ministry of Economy is responsible for export licensing of red meats and some products of animal origin (decisions are taken in agreement with the Ministry of Agrarian Policy of Ukraine according to the ruling introduced in November – December of 2004 and again for the entire 2005)

Export Licensing of

- Beef fresh and chilled (HS 0201)
- Beef frozen (HS 0202)
- Pork fresh, chilled or frozen (HS 0203)
- Poultry (HS 0207)
- Animal fats (HS 0209)
- Smoked salted and dried meats, meat meal (HS 0210)

According to the Law of Ukraine “On Seed and Planting Materials” wholesale trade in seeds (bunch of different HS Codes) is subject to licensing by the Ministry of Agrarian Policy.

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

U.S. Export Controls

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The Department of Commerce, Bureau of Industry and security (BIS) <http://www.bis.doc.gov> is the primary licensing agency for dual use exports (commercial items which could have military applications). [Other departments and agencies](#) have regulatory jurisdiction over certain types of exports and re-exports. For example, the State Department licenses the export defense articles

and services, while certain nuclear materials and equipment are licensed by the Nuclear Regulatory Commission.

Relatively few exports require an export license. Licenses are required in certain situations involving national security, foreign policy, short-supply, nuclear non-proliferation, missile technology, chemical and biological weapons, regional stability, crime control, or terrorist concerns. License requirements are dependent upon an item's technical characteristics, the destination, the end-use, and the end-user, and other activities of the end-user. [Learn for sure whether your exports need a license before you export.](#)

The first step in determining your license requirements is to classify your product by determining its [Export Control Classification Number \(ECCN\) on the Commerce Control List \(CCL\)](#). More [information on Commodity Classifications](#). Check these lists to insure your products are not being illegally sold to barred persons or entities.

[Denied Persons List](#) - List of persons to whom export privileges are denied by written order of the Department of Commerce.

[Unverified List](#) - includes names and countries of foreign persons who in the past were parties to a transaction with respect to which BIS could not conduct a pre-license check ("PLC") or a post-shipment verification ("PSV") for reasons outside of the U.S. Government's control.

[Entity List](#) - These end users have been determined to present an unacceptable risk of diversion to developing weapons of mass destruction or the missiles used to deliver those weapons.

[Specially Designated Nationals List](#) - Alphabetical master list of Specially Designated Nationals and Blocked Persons

[Debarred List](#) - Defense Trade Controls List

More Information on Export Controls, Regulations and Licensing: [Bureau of Industry and Security \(BIS\)](#)

Temporary Entry

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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 USD 30 for each customs declaration. When a large number of samples are imported, additional pages, costing USD 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.

Labeling and Marking Requirements

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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.

Prohibited and Restricted Imports

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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 Industry and Security (BIS), 14th and

Pennsylvania Ave., N.W., Washington, DC 20230; Tel: (202) 482-0500.
<http://www.bis.doc.gov/>

Customs Contact Information

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A new Customs Code went into effect January 1, 2004, 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 of Ukraine (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.

State Customs Service of Ukraine
11 Degtyarivska St., Kyiv 04119 Ukraine
Tel: (044) 247-26-06, 274-27-06
Fax: (044) 236-82-81
E-mail: dmsu@customs.gov.ua
<http://www.customs.gov.ua/>

Standards

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Overview

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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 2011. As of January 31, 2004 Ukraine had 1607 national standards

harmonized with international and European ones and by 2011, it will have to implement 10 thousand European standards or approximately 1.5 thousand standards per year.

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. The Government of Ukraine is in the process of bringing its sanitary phylosanitary (SPS) standards into conformance with WTO requirements.

Standards Organizations

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DerzhSpozhyvStandard (State Committee of Ukraine for technical regulation and consumer policy, <http://www.dssu.gov.ua/>) has created a network of 28 state centers of standardization, metrology and certification, 118 certifying bodies and testing laboratories (centers) throughout Ukraine. Each center is responsible for testing a particular item. Companies seeking testing should first contact DerzhSpozhyvStandard, as they make the ultimate determination on certification.

Conformity Assessment

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Conformity Assessment is a mandatory step for the manufacturer in the process of complying with Ukrainian legislation. (Law of Ukraine On Conformity Assessment, http://www.welcometo.kiev.ua/ili/ilic.frame_law_result2.show?p_arg_names=law_id&p_arg_values=153) The purpose of conformity assessment is to ensure consistency of compliance during all stages of the production process to facilitate acceptance of the final product. The assessment procedure shall be obligatory in a legally regulated sphere, and voluntary in a legally unregulated sphere. Ukrainian product legislation gives manufacturers choice with regard to conformity assessment, depending on the level of risk involved in the use of their product. These range from self-certification, type examination and production quality control system, to full quality assurance system. You can find conformity assessment bodies in this list <http://www.dssu.gov.ua/sertif/perelik.html>.

Product Certification

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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 State Committee of Ukraine on Technical Regulation and Consumer Policy (as of October 1, 2002 – DerzhSpozhyvStandart instead of former Derzhstandart), 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 DerzhSpozhyvStandard:

- 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).

DerzhSpozhyvStandard 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 DerzhSpozhyvStandard, 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.

Accreditation

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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.

Publication of Technical Regulations

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Publication of Technical Regulations can be found at official website of the State Committee of Ukraine for technical regulation and consumer policy:
<http://www.dssu.gov.ua/control/en/index>

Labeling and Marking

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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.

Trade Agreements

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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, Kyrgyz Stan, 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), but Ukraine must first become a member of the World Trade Organization. In 2003, Ukraine started negotiating with Russia, Belarus and Kazakhstan on creating a yet-to-be defined "common economic space." Negotiations are ongoing with the outcome far from certain at the end of 2005.

WTO membership has long been a proclaimed goal of Ukraine, and Ukraine has been engaged in the process of accession since 1993. Ukraine is nearing the final stages of the negotiation process. On March 6, 2006, the U.S. and Ukraine signed a bilateral agreement on market access as part of Ukraine's World Trade Organization (WTO) accession negotiations. The U.S. Department of Commerce has assigned a resident advisor to assist Ukraine in developing and implementing economic trade laws in conformity with WTO requirements, and USAID provides additional technical assistance in this area.

Web Resources

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Ministry of Economy of Ukraine: <http://www.me.gov.ua/>

State Customs Service of Ukraine: <http://www.customs.gov.ua/>

State Committee of Ukraine for technical regulation and consumer policy:
<http://www.dssu.gov.ua/control/en/index>

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Chapter 6: Investment Climate

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Openness to Foreign Investment

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GOVERNMENT'S ATTITUDE TOWARDS FOREIGN INVESTMENT

When President Yushchenko took office in January 2005, he made improving the investment climate one of his top economic policy goals. This led to a number of new government initiatives, such as creation a State agency for investment and innovation and a number of investor councils chaired by the President. International investment companies rushed to take advantage of the improved mood and held several large-scale Ukrainian investment conferences in early 2005 both in Ukraine and abroad. The President and other high-level GOU officials spoke at many of these conferences, including the World Economic Forum's "Mini-Davos" roundtable held in Kiev in June 2005. In general, foreign investors reported increased GOU receptiveness to and understanding of investor concerns but few concrete improvements over the year. Government re-privatization plans and closure of the Special Economic Zones (discussed later) also made investors wary.

After eight years of decline following independence, the Ukrainian economy has been growing steadily since late 1999 but with declining rates of growth at the end of 2005. Ukraine's GDP grew 12.1% in 2004 and approximately 2.5% in 2005. Growth is expected to rebound somewhat in 2006. Over the past few years, Ukraine has liberalized its markets, reduced regulation, eliminated most licensing requirements, eliminated most restrictions on foreign exchange and begun the transformation of 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 over four years. The National Bank allowed it to appreciate about 5% in early 2005 under pressure from international financial

institutions, which claimed the currency was undervalued. 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.

Ukraine was not able to achieve its goal of entering the WTO in 2005. Yet, over the past year Ukraine made strong progress in its WTO accession, passing over a dozen pieces of important legislation to modernize its trade regime and signing 10 bilateral market access agreements. The legislation dealt with intellectual property rights for optical media, agricultural tariffs, insurance branching, auditing requirements, age-limits on imported buses and trucks, local content in automobile production, sunflower seed export duties, sanitary and phytosanitary measures, and technical barriers in trade. The GOU has not yet enacted legislation on export, restrictions on scrap metal and hides/skins, sugar quotas, product safety, bank branching, attorney's citizenship requirements and foreign ownership in broadcasting companies, despite repeated attempts to secure approval of the legislation.

Foreign investors continued to express little confidence in the Ukrainian court system. For many years, Ukrainian courts have tended to strike down or ignore contractual provisions for international arbitration or that assign legal responsibility for dispute resolution to a foreign court. The greatest number of investor complaints over the years have involved the State Tax Administration's (STA) selective enforcement of tax policy. Businesses have claimed that STA local and regional branches use investigative authority to advance political or business interests. New leadership appointed by the government of President Yushchenko and anti-corruption efforts seem to have paid off in 2005, however, as the number of such complaints have dropped. Exporters have also been harmed in the past by the STA's failure to refund VAT payments on inputs in a timely fashion, but the STA improved its performance and settled most outstanding arrears in late 2005.

MAJOR LAWS/RULES AFFECTING FOREIGN INVESTMENT

Ukraine's law "On The Foreign Investment Regime" (1996) provides for equal treatment of foreign and 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 "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.

In early 2005, Ukraine lifted all tax and tariff exemptions to investors in Special Economic Zones (SEZ) in order to stop large-scale misuse of the zones. Investors who suffered from the cancellation criticized the abrupt cancellation of the privileges and the absence of any compensatory provisions, and they said these actions destabilized the investment climate. The GOU states it is developing a compensation mechanism for investors, but as of the end of 2005 has not announced one. U.S. investors both with

planned and existing investment in the SEZs faced substantial losses from the elimination of customs and tax privileges.

Both a new Civil Code and a competing and incompatible new Commercial Code went into effect on January 1, 2004. Lawyers and judges continue to grapple with how to implement the two conflicting laws. Existing legislation is also not fully compliant with the codes. In 2005, the Ukrainian government proposed to annul the Commercial Code, but has not yet provided corresponding draft legislation to the parliament.

On October 25, 2001, the Ukrainian Parliament passed a Land Code. The Land Code provides for private ownership of land, facilitating the privatization of land for agricultural purposes, but also provides for a moratorium on agricultural land sale until January 1, 2008. Individuals will not be able to sell more than a total of 100 hectares of land between 2008-2015. The Land Code includes a 20-year moratorium on agricultural land sales to foreigners, though foreigners may own land plots on which company facilities have been built. Efforts to cancel the moratorium have failed in the Parliament (Rada), Ukraine's parliament. 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.

A new Customs Code went into effect January 1, 2004, codifying uniform customs procedures for all goods, specifying 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 review foreign trade companies' financial and economic performance. December 2005 amendments to the Customs Code and Single Customs Tariff brought Ukraine's customs regime almost fully into compliance with the WTO Customs Valuation and Rules of Origin Agreements.

On July 1, 2001 the law "On the Customs Tariff of Ukraine" took effect. Under this law only the 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. Between March and July 2005, the parliament passed three packages of amendments to the Customs Code of Ukraine to decrease tariff rates. These measures brought the normal average tariff rate down to 6.5 percent, or more specifically to 13.8 percent (down from 19.7 percent) for agricultural goods and 4.4 percent (down from 8.3 percent) for industrial goods.

Ukraine's anti-monopoly committee implements anti-monopoly, competition, and consumer protection legislation under the March 2002 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 law requires that the Committee obtain a court order before entering private property. Those violating 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. Legal experts have expressed concern over restrictions on who may appeal a Committee decision.

PRIVATIZATION AND FOREIGN PARTICIPATION

A transparent privatization law provides for the cash sale of majority shareholdings in state enterprises, open bidding procedures, and the use of independent financial advisers to assist Ukraine's State Property Fund (SPF). In practice, however, privatizations conducted between early 2000 and 2004 were non-transparent and arbitrary -- and were marked by heavy behind-the-scenes political interference. In the months leading to the 2004 presidential elections, the pace of privatization accelerated, including the highly controversial sale in May 2004 of Ukraine's largest steel mill, Kryvorizhstal, at the bargain price of USD 800 million. The tender requirements were written in such a way as to ensure the victory of Ukrainian businessmen close to then-President Leonid Kuchma, including his son-in-law, despite bids from a foreign investor of over double the amount paid.

In 2005, the new government of President Viktor Yushchenko undertook a review of such presumably corrupt past privatizations. After court decisions invalidated the 2004 sale of Kryvorizhstal, the GOU conducted a new transparent tender open to international participation and resold the enterprise to Mittal Steel in October 2005 for USD 4.8 billion. Thanks to this sale, which made up 97% of the USD 4.92 billion in privatization receipts through November 2005, these proceeds far surpassed the record USD 1.7 billion banked in 2004.

Despite this one success, the Government did not articulate a cogent policy for much of 2005 regarding other suspicious past privatizations, creating uncertainty among business owners and prospective investors. Various GOU officials floated contradictory proposals on the number of firms that might be re-privatized and the method for addressing previous questionable privatizations. Most outside observers believe the absence of a clear policy damaged the business climate and diminished investment. By the end of the year the GOU sought to repair the damage by calling for a new law that would respect property rights and giving amnesty to current owners who reach an amicable agreement with the Government to "pay up" the difference between the amount paid initially and the market value of the enterprise. Although the government launched no concrete policy initiatives, President Yushchenko declared in November that Kryvorizhstal would be the last repeat privatization. Courts, however, also declared in 2005 that the past privatization of a majority stake in another metallurgical concern, Nikopol Ferroalloy, was illegal. Nikopol Ferroalloy had been purchased by a consortium controlled by the son-in-law of then-President Kuchma. In early 2006, the Supreme Court upheld the decision of the lower courts that the past privatization was illegal and ordered the transfer of 50% plus one share to the State Property Fund. However, press reports indicate unresolved legal issues remain concerning the state's control over the enterprise.

Ukrainian law limits foreign participation in privatization of certain "strategic" enterprises (radio, television, energy, and insurance). Foreign shares of TV and radio broadcasting and publishing companies generally may not exceed 30%. Legislation that would increase this share to 35% -- a part of Ukraine's WTO accession efforts -- failed in the Rada in 2005. The Rada has authority to lift legislative restrictions on foreign ownership in specific instances and has done so on occasion.

PROCUREMENT

Ukraine is not a signatory to the WTO Agreement on Government Procurement but is negotiating WTO accession. A March 2000 government procurement law favors Ukrainian bidders on contracts to sell goods and services, affording a 10% differential to domestic bidders over foreigners in certain cases. Foreign investors also complain about a lack of advance notice of rules and requirements for tenders, covert preferences in tender awards, hidden conditions on awards that are not defined in tender announcements, partiality towards domestic investors, and an inability to resolve grievances and disputes. For example, a U.S. company reported it planned to sue Ukraine's Ministry of Foreign Affairs after alleged irregularities in a December 2005 tender for a public relations contract, which a local company won. The American Chamber of Commerce in Kiev has reported that many firms are reluctant to pursue GOU procurement opportunities out of concern they will be unable to collect payment.

A law "On Production Sharing Agreements" (PSA), effective October 1999, provides a legal framework guaranteeing that the terms of agreements between foreign investors and the GOU for natural resources development cannot be changed once an investment is made. However, additional enabling legislation is needed in order to harmonize Ukrainian laws with the PSA's joint exploration and production license. Also needed are Cabinet of Ministers resolutions to establish special tax benefits envisioned by the PSA law, such as the amount of profit tax revenue the government will receive from the PSA producer.

Conversion and Transfer Policies

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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. By intervening in exchange markets, the National Bank of Ukraine (NBU) maintains a de facto peg of Ukraine's currency, the hryvnia, to the dollar. As of January 2006, the hryvnia traded against the U.S. dollar at UAH 5.05 to the dollar, 5% stronger than last year's 5.32 average, after the NBU decided to allow the appreciation and temporarily suspended its defense of the old rate.

While foreign investors may repatriate earnings, companies must obtain a license from the NBU for some operations. For repatriation of hard currency, each transaction over USD 50,000 must be approved by the NBU. The NBU also charges a fee to review the transaction. In December 2005, the NBU announced its plans to replace the licensing system with registration and reserve requirements on transactions with hard currency. In view of increased hard currency inflows, the NBU on March 31, 2005, canceled its 1998 surrender requirement that exporters convert half of their hard currency revenues into hryvnias. Foreign exchange is readily available at market-determined rates, which generally do not vary greatly from the daily official exchange rate. In February 2005, the NBU lifted the 2% limitation on deviation of bank exchange rates from the official exchange rate, which had been in effect since October 2004. A pension fund tax is levied on transactions to purchase hard currency. In December the GOU reduced that tax from 1.5% to 1.2% of the amount of the transaction, effective January 1, 2006.

Foreign investors have complained of cumbersome NBU regulations (NBU 2005 Resolutions 280 and 281) requiring them to open both hard currency and hryvnia accounts in Ukrainian banks in order to bring money into or out of the country. Past

investors seeking to liquidate and repatriate their investments must provide current documents from the financial institution that handled the original transaction confirming the provenance of the original funds. In cases where these financial institutions have since closed, investors have difficulty repatriating their money legally out of Ukraine. In an effort to discourage the inflow of short-term money, NBU resolution 291 in 2005 mandated that Ukrainian banks hold in reserve 20% of any loans from foreign lenders that have a maturity of 180 days or less. In response to complaints by investors, the NBU has formed a working group to revise these regulations.

Investors 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). To purchase hard currency, companies must provide their banks with a copy of their foreign trade contracts. In an attempt to expedite purchases of hard currency, in March, 2005 the National Bank of Ukraine cancelled the requirement that companies obtain State Tax Administration permission to purchase hard currency. Commercial banks must announce their clients' intentions to sell on UICEX if the transactions exceeded USD 500,000. 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 600 abroad without opening a bank account. Illegal trade of hard currency is not a criminal matter but brings administrative penalties.

Expropriation and Compensation

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Under the 1996 law "On the Regime of Foreign Investment," a qualified foreign investor is provided guarantees against nationalization, except in cases of national emergencies, accidents, or epidemics. International institutions have recommended 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. The government's contradictory statements about what businesses might be subject to a review of past privatization (discussed in section A.1) had foreign investors concerned their property could be re-nationalized.

In the context of Ukraine's WTO accession, the GOU in 2005 eliminated less favorable treatment of enterprises with foreign investment with regard to the use of vouchers for VAT payments, and abolished local content requirements in the automobile industry.

Dispute Settlement

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EXTENT AND NATURE OF INVESTMENT DISPUTES

The Embassy continues to provide advocacy on behalf of U.S. investors. For many years, investment disputes frequently have involved 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 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 continues to lie 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 to local firms and their government "sponsors."

DESCRIPTION OF UKRAINE'S LEGAL SYSTEM

Ukraine has a civil law system relying on codes and separate legislative acts. The court system comprises the constitutional court, which interprets the Constitution and laws of Ukraine, and a system of courts of general jurisdiction. The courts of general jurisdiction are further divided into general courts, which handle civil, criminal, and administrative matters, and specialized commercial courts, which review business disputes, bankruptcy, and anti-monopoly cases. Both the general and commercial court systems feature a hierarchy of local and/or regional courts and appeals courts. The Supreme Court of Ukraine is the highest court in the system of courts of general jurisdiction.

The law "On the Judiciary," in force as of June 2002 creates four levels of courts -- local courts, courts of appeal, courts of cassation (higher specialized courts) and the Supreme Court. This law also establishes an independent judicial department, the State Judicial Administration, to manage the court system, with the exception of the Supreme Court, which is self administered. The law did increase the independence of the judiciary; but it also in some cases increased the powers of the President over the judiciary. While the law envisioned the creation of a separate system of Administrative courts, this system is only now being set up. The Supreme Administrative Court started its work only in the fall of 2005. The Parliament adopted legislation in 2004, as well as an Administrative Procedural Code adopted by Parliament on July 8, 2005, that should govern the organization and work of the lower administrative courts when they are created.

Currently, there are ongoing discussions within the parliament and the executive branch of government on how to strengthen rule of law and the independence of the judiciary. The newly created National Commission on Democracy and the Rule of Law has prepared the draft Concept of improvement of the judicial system and securing access to justice and the draft Recommendations for implementing a judicial reform in 2006.

ENFORCEMENT OF RIGHTS

Investors criticize Ukraine's legal system for continuing problems of burdensome procedures, unpredictability, political interference, corruption, and inefficiency. Even when they obtain favorable decisions, investors claim the decisions are rarely enforced. The enforcement responsibilities fall under the State Enforcement Service, which reports to the Ministry of Justice, but whose head is appointed by the Cabinet of Ministers.

As of September 2005, the procedure for recognizing and enforcing foreign court decisions is regulated by Section 8 of the Code of Civil Court Procedures of Ukraine, which replaced the 2001 law "On Acknowledgment and Execution in Ukraine of Decisions of Foreign Courts." In accordance with the Code, a foreign court decision is recognized and enforced in Ukraine if such recognition and enforcement is provided for in international treaties, the mandatory nature of which has been endorsed by the Rada, or based on mutual ad hoc agreement with a foreign state whose court has rendered a decision that is to be enforced in Ukraine.

The State Enforcement Service implements decisions rendered by foreign courts and arbitration tribunals in accordance with the law "On Enforcement Proceedings." A draft law "On Implementing Decisions and Applying Practices of the European Court for Human Rights" passed its first reading in the Rada on December 20, 2005. The second reading is expected for 2006. These measures show an encouraging trend toward conforming Ukraine's legal system to international norms.

COMMERCIAL LAW

A new Civil Code and a competing and incompatible Commercial Code both went into effect on January 1, 2004. Lawyers and judges are now grappling with how to implement the two conflicting laws. Despite heavy criticism of the Commercial Code by many GOU officials over the year, the Rada has as yet taken no action to amend or annul it. The government again announced in late 2005 that it planned to seek repeal of the Commercial Code. The Civil Code addresses private ownership protection and freedom of contract and entrepreneurship. It provides a unified framework for economic regulations alongside legal reforms such as the Land Code, a newly passed law "On Mortgages," a law "On Mortgage Backed Securities," a law "On Financial Leasing" and a law allowing for the establishment of Credit Information Bureaus, together with a draft Joint Stock Company Law (which has not yet been adopted). It also establishes rules for property relationships, including intellectual property, and creates a level playing field for entry and operation of business entities.

A 1999 bankruptcy law provides for debtor-led reorganization, a meaningful moratorium on payment and collection of pre-existing debt, and a tax forgiveness provision. The 1999 law provided thousands of heavily indebted industrial enterprises with an alternative to liquidation that did not exist under Ukraine's original 1992 bankruptcy law. Since then, many firms have reached amicable settlements with their creditors and established a workable schedule of debt forgiveness and repayment. Creditors protect their rights under the law by electing a creditors' committee, which is actively involved in the bankruptcy proceedings.

CORPORATE GOVERNANCE

Problems with corporate governance in Ukraine involve corporate ownership, shareholder rights, transparency, and disclosure. The law "On Companies" offers scant protection for minority shareholders against insider dealing, asset stripping, profit skimming, and share dilution. Corporate finance is restricted. Some examples of shareholder rights abuses include limited disclosure, capital restructuring without shareholders' consent, and shareholder voting fraud. Nevertheless, a Company Register that was established in 2004 improved transparency. A new "Joint Stock

Company” law was first drafted in 1998 to remedy the pitfalls of the current law by introducing sound corporate practices that meet international standards. It has failed repeatedly in parliament, despite increasing interest in the business community. In October 2005 the Cabinet of Ministers submitted a new version of the draft law on Joint Stock Companies. However, this draft has little support in the present Rada, because it eliminates the closed form of Joint Stock Company. This form of ownership allows many so-called “Red Directors” to control their companies as minority shareholders. It is likely that the new Rada will consider the October 2005 Joint Stock Company draft after the March 2006 parliamentary elections.

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 Section 8 of the Civil Procedural Code and a law “On Enforcement Proceedings.” 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.

Performance Requirements and Incentives

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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. Ukraine has eliminated measures that conflicted with the WTO Agreement on Trade-Related Investment Measures (TRIMs) in the automobile industry and other sectors in the context of its accession efforts. Some potentially conflicting practices remain in the agricultural sector and in legal services, for example. Restrictions on imported raw cane sugar and minimum price regulation on domestic sugar beets and refined sugar may provide preferential treatment to the domestic sugar market. The law "On Auditing" was amended in July 2005 to remove nationality requirements for auditing services in Ukraine. Similar amendments to the law “On the Bar” to lift a nationality restriction in legal services failed repeatedly in the Rada.

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

According to Ukrainian Presidential Decree No. 1008 dated June 30, 2005 (with amendment dated August 18, 2005), U.S. citizens traveling to Ukraine on short-term tourist, business or private travel do not need a visa to enter Ukraine. Visas are still required of other categories of travelers including those who intend to study, reside, or work in Ukraine. Short-term travelers entering Ukraine under the auspices of this decree can stay in Ukraine up to 90 days. Any requests for extension of stay due to extenuating circumstances should be directed to the Ministry of Interior's Department of Citizenship, Immigration and Registration (formerly known as OVIR). Extensions are not automatic, however, and are valid only for continued presence in the country. It is not possible to depart Ukraine and return on the extension, nor can an adjustment to visa status be made from within 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 "On Population Employment" and "On the Legal Status of Foreigners" define the procedures for obtaining a permit at the State Employment Service. There is one exception: the Law "On Production Sharing Agreements," allows foreigners under such agreements to be hired without permits.

The Cabinet of Ministers Instruction No. 892, dated September 12, 2005, extended work permits from one year to the tenure of employment for foreign citizens working in managerial or specialized positions in Ukraine and individuals providing services without their commercial presence in Ukraine. 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 are 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.

Right to Private Ownership and Establishment

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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 land than agricultural land. The Code forbids the sale of agricultural land until 2008, and restricts the land ownership of any one legal entity (Ukrainian citizen or Ukrainian-based business) to no more than 100 hectares until 2015. The Land Code prohibits foreigners from 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 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. The U.S. Government via 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. On December 23, 2004 the Rada adopted the law "On Warehouse Receipts" to expand lending to agriculture concerns using receipts as a collateral.

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 are weak. Some difficulties have arisen when foreigners acquire majority control of enterprises, with the government or the current management in some cases continuing to exercise effective control of company decisions.

Protection of Property Rights

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MORTGAGE

During the last few years, Ukraine's policymakers have launched many initiatives to develop a mortgage market, which has resulted in a strong increase in the number of mortgages and laid the legislative and administrative groundwork for a functioning mortgage market. In late 2002 Ukraine adopted a law on "Withholding Land Shares in Kind." In June 2003, a law "On Mortgages" was adopted. The GOU created the State Mortgage Institution (SMI) in October 2004 with authorized capital of UAH 50 million (USD 200 million), a liquidity facility largely aimed at putting downward pressure on lending rates by allocating capital efficiently. The 2006 budget allocated UAH 1 billion to issue state guarantees on loans to SMI. It is planned that the SMI will issue its first securities early in 2006. The use of mortgages in Ukraine still remains limited by the scarcity of issued titles and limits on lending activity. However, apartments, houses, office buildings, other types of buildings, and dacha plots have secured mortgages. USAID helped create of a pledge registry, the first of its kind in the former Soviet Union, which applies to individuals' obligations with regard to movable property and tax liens. Though rudimentary, the registry is nationwide, providing a more transparent lending market for personal property.

INTELLECTUAL PROPERTY RIGHTS

Ukraine was the only country named a Priority Foreign Country in the 2002, 2003, 2004 and 2005 Special 301 reviews conducted by USTR. The United States withdrew Ukraine's benefits under the Generalized System of Preferences (GSP) program in August 2001 and imposed USD 75 million worth of sanctions on Ukrainian imports on January 23, 2002. These sanctions, which affected a number of Ukrainian products, including metal, footwear, and chemicals, were lifted on August 30, 2005 after the Ukrainian government secured passage of important amendments to the Laser-Readable Disk Law and other laws, which went into effect on August 2, 2005. The

United States concluded a Special 301 Out-of-Cycle Review (OCR) of Ukraine in January 2006. In recognition of the Government of Ukraine's efforts to improve the enforcement and protection of intellectual property rights, the United States reinstated GSP benefits for Ukraine effective January 23, 2006, and changed Ukraine's designation under Special 301 from Priority Foreign Country to Priority Watch List. Ukraine agreed to work with the U.S. Government and with the U.S. copyright industry to monitor the progress of future enforcement efforts through an Enforcement Cooperation Group. The United States will continue to monitor developments in the protection of intellectual property rights in Ukraine pursuant to Section 306 of the Trade Act of 1974.

Ukraine is an active member of the World Intellectual Property Organization and a signatory to a number of international agreements and conventions. As part of its ongoing efforts to negotiate accession to the WTO, Ukraine has adopted legislation, including a May 2003 Omnibus package, to bring its laws into compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Some possible issues remain with Ukraine's treatment of foreign geographical indicators and test trial data. Ukraine is in the process of strengthening its legal protections for pharmaceutical test data that pharmaceutical companies must submit to government authorities to obtain marketing approval. Patent and trademark violations are common in Ukraine, and U.S. industries have reported widespread counterfeiting of pharmaceuticals and consumer products. The Ukrainian Ministry of Health reportedly does not check the validity of patents when it permits pharmaceutical sales in Ukraine. In one case, the Ministry of Health allowed a European company to register the same drug for which a U.S. company held a valid patent.

The State Department of Intellectual Property (SDIP) is responsible for the formulation and implementation of Ukraine's intellectual property policy. In order to increase IPR enforcement, the Ministry of Internal Affairs and the State Customs Service have also set up units to deal exclusively with IPR violations. These under-staffed units have difficulty dealing with the large number of IPR infringements. In many cases, the rights holder must actively engage with the Ministry of Internal Affairs or the State Customs Service to obtain enforcement. Trademarked and copyrighted goods must be registered for a fee (USD 400 for the first good for the first year) in Customs' rights holder database in order to be guaranteed protection. Optical discs, however, also receive protection under the import-licensing regime, so few recording or motion pictures companies bother to register. Generally low confidence in the Ukrainian judicial system has meant few enterprises have brought private lawsuits. Legal experts and government officials have called for the formation of a special patent court in Ukraine to adjudicate patent cases, but to date there has been no concrete action towards this end.

Transparency of Regulatory System

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TRANSPARENCY OF REGULATORY POLICIES

While there has been progress on deregulation, the number of regulations, required certificates, and inspection regimes in Ukraine still impose a significant regulatory burden on private enterprise. In response to new presidential decrees No. 799 dated May 12, 2005 "On Liberalization of Business Activity and State Support of Entrepreneurship" and No. 901 dated June 1, 2005 "On Some Measures to Ensure Enforcement of State Regulatory Policy," the State Committee for Regulatory Policy and Entrepreneurial Activity (SCRPEA) undertook a review of regulatory acts. By the end of

2005 the Committee had reviewed 9340 regulatory acts, 52.8% of which it decided to cancel.

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. On January 5, 2006 the law "On Permits' System in Economic Activity" entered into force. As a result of this law, more than a half of required permits have been cancelled and the number of locations for obtaining permits has increased six fold. The Yushchenko government also streamlined business registration procedures and now one can register business within two to three days instead of two to three weeks, as in the past. "One-stop Registration Shops" have been expanded nationwide. President Yushchenko also introduced a new "Single Window" for customs registration procedures.

LICENSING

Ukraine applies both activity and import licensing regimes. 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. Licensing applies to nearly 60 goods and services and is meant for protection of human, animal or plant health, the environment, public morals, national security, or for prudential regulation of the financial sector. Businesspeople continue to cite burdensome activity licensing requirements as major impediments to commerce in Ukraine. Fees are described as high and compliance burdensome, particularly for telecommunications equipment. Import licenses are required for some goods, primarily pesticides, alcohol products, optical media production inputs, some industrial chemical products and equipment containing them, official foreign postage stamps, excise marks, officially stamped/headed paper, and checks and securities.

RULEMAKING/INSPECTIONS

Proposed draft laws and regulations are available on the Rada website for public review, but there is no formal procedure for submitting comments.

Current Ukrainian legislation envisages a mandatory financial inspection of a business entity per year and requires a minimum of 10 days notice. Non-financial inspections (i.e. taxes, fire safety, sanitation, etc.) can be burdensome and impediments to doing business in Ukraine.

CERTIFICATION/HEALTH AND SAFETY POLICIES

Technical standards and certification requirements are imposed on many imports. The certification body is the State Committee of Ukraine for Technical Regulation and Consumer Policy ("DerzhSpozhyvStandard"). Although Ukraine belongs to several international standardization bodies, such as the International Organization for Standardization (ISO), for many years it generally had not recognized foreign product certificates, even if they are issued in line with international standards, unless recognition is mandated through an international treaty signed by Ukraine. Standardization procedures can be lengthy, burdensome, and expensive; standards can be vague, inflexible, and subject to frequent changes.

Numerous certification bodies continue to operate independently without coordination or oversight. Local, regional, and municipal authorities often require additional documentation beyond that required by certification bodies. As of November 2005, DerzhSpozhyvStandard had a network of 109 accredited product certifying bodies for quality management systems, as well as about 780 testing laboratories throughout Ukraine. Moreover, appropriate resources, such as modern analytical equipment and reactants, are not available in most laboratories. Quality management systems are also needed to ensure testing is done within an acceptable margin of error. DerzhSpozhynStandard's system includes 28 state centers for standardization, systematizing weights and measures, certification and 27 territorial departments for consumer protection. Companies seeking testing should first contact DerzhSpozhyvStandard.

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 applies a range of sanitary and phytosanitary (SPS) measures, many of which do not appear to be consistent with an international, science-based approach to regulation. The certification and approval process is lengthy, duplicative, and expensive, with politics and corruption still often behind arbitrary application of regulations. Amendments to the law "On Quality and Safety of Food Products and Food Raw Materials," the law "On Plant Quarantine," and to other laws, to bring Ukrainian legislation in compliance with requirements of the WTO Agreement On Sanitary and Phyto-sanitary Measures, passed at the end of 2005 and in early 2006. Amendments to the law "On Veterinary Medicine" remain outstanding.

For many years, Ukraine has worked to bring its standardization system into conformity with the European Standards System. 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, the National Accreditation Body started operations to ensure the use of standards and procedures consistent with European Cooperation for Accreditation (ECA) policy.

Efficient Capital Markets and Portfolio Investment

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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 just over 6% of GDP. Total bank assets in Ukraine are about UAH 212.4 billion, with total loan assets of UAH 152.4 billion. Money lending and deposits grew at a fast 57% and 56% respectively in January-November, 2005. Despite rapid growth, bank deposits account

for 28% of GDP, putting Ukraine in the 'poor' category in the standard rankings of deposits. Interest rates continued to decline from 17.9% in 2004 to 16.1% in 2005 making credit more accessible. On December 1, 2005, Rada amended the "Consumer Rights Protection" law in favor of borrowers that lifted the limitation on early loan repayment. Most banks have a high cost structure and as high net interest margins versus low operating profits. There are 164 banks operating in Ukraine, but a handful of banks dominate the market. The top ten banks control 58% of the loans outstanding and own 45% of the total capital of the system. As the volume of consumer lending doubled during 2005, the share of loans exceeding one year increased to 53% of the total loan portfolio of the banking system, up from 46% last year. Non-performing loans were registered at 2.3% of the total lending portfolio.

In January 2002, the law "On Banks and Banking Activity" eliminated discrimination against foreign banks. It entrusted the NBU with issuing banking licenses, and includes provisions to prevent money laundering. The NBU sets minimum capital requirements each year to be met by the banks by the year-end. Current minimum capital requirements range from UAH 14.4 million to UAH 57.74 million. 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. Foreign banks can operate via subsidiaries in Ukraine. The decision to allow foreign banks to operate via branch offices is pending before the Rada. Foreign banks increased their presence in Ukraine's banking sector during 2005 as the largest Ukrainian bank, "Aval," was purchased by the Austrian Raiffeisen bank in October and medium-size UkrSibbank by French BNP Paribas in December 2005.

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 the use of credit cards is on the rise. From January through September 2005, the use of credit cards increased by 84% and use of ATM cards increased over 30%. Scams to bilk ATM users of their money are common, so the Embassy advises visitors not to use ATMs.

INSURANCE

Only insurance companies registered in Ukraine may carry out insurance operations. There is a lower minimum capital requirement for domestic insurance companies than insurance companies with foreign shareholders. Foreign insurance companies can invest in local companies, but to operate locally they are required to open branch offices. July 2005 amendments to insurance laws will give foreign companies the right to operate in Ukraine through affiliates five years after Ukraine accedes to the WTO.

CAPITAL MARKETS

Legal, regulatory, and financial disclosure systems for the securities market continue to 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 continue to face low market confidence, high macroeconomic risk, transitional accounting standards, a lack of accurate company

information, and inadequate protection of minority shareholders' rights. Deficiencies in regulations governing operation of registrars led to frequent cases of double registration of shares, resulting in low protection of shareholders' rights.

Ukrainian law allows for the following types of securities: stocks (registered, bearer, preferred, and common), government and municipal securities, general obligation bonds, corporate bonds, savings certificates, depository certificates of the National Bank promissory notes, bond coupons, loan certificates, bank orders and savings accounts.

According to the SSMC, last year there were 130 collective investment institutions, 780,863 securities traders, 138 custodians, 362 registrars, and 12 self-regulatory organizations (six of which are associations). Eight stock exchange offices 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 86.23% of secondary onshore trading. Market capitalization was UAH 74 billion (USD 14.06 billion) in early 2005.

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) 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. The absence of a consolidated national depository complicates transparent and efficient transfer of ownership of securities. Although a 1997 law created a national depository, its function was taken over by other entities, and the Ukrainian government is currently considering reform options.

The law "On Economic Entities" allows for a "stable shareholder arrangement" by permitting operation of close-ended Joint-Stock Companies, which give existing shareholders priority rights to buy out any, new or existing, shares in any company being sold. The provision is used to protect against hostile takeovers, but its use is not seen as biased against foreign takeovers. The draft law on the Joint-Stock Companies, currently pending before the Rada, would cancel the provision.

Political Violence

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A fraudulent presidential runoff election in November 2004 brought about the "Orange Revolution" in November and December 2004. The country saw massive nonviolent street demonstrations in Kiev and other major cities. Protesters blocked government offices and buildings. Some companies went on strike in support of the then opposition candidate, Viktor Yushchenko, but the strikes lasted just a few days. Disruptions in normal business activities were minimal. The demonstrations were peaceful. The

likelihood of future widespread politically inspired violence that would affect foreign property interests remains relatively low.

Corruption

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CORRUPTION

Corruption pervades all levels of society and government and all spheres of economic activity in Ukraine and is a major obstacle to foreign direct investment. Ukraine's new government made fighting corruption and smuggling top priorities, although much remains to be accomplished. However, corruption allegations at the highest levels led to a change in the Prime Minister and Cabinet of Ministers in September 2005. Ukraine did improve on Transparency International's Year 2005 Corruption Perception Index, which was published in March 2005. The country moved up to 107th place in 2005 on the list of the 158 countries from 122nd place out of 145 countries in 2004.

Corruption stems from a number of factors: a lack of institutional traditions of transparent decision-making and societal understanding of the importance of corporate governance and transparency. Low public sector salaries 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. In 2005, the GOU introduced legislation to increase local court judges' salaries significantly. 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.

Ukraine's 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 mid-level state employees.

Although 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 with USG contacts and with the press and public at large. Ukraine signed the UN Anticorruption Convention in December 2003 but has not yet ratified it. Ukraine is not party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

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 its independence strengthened. Enforcement of court decisions is also lacking.

Bilateral Investment Agreements

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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), Saudi Arabia (2003), Albania (2004), Finland (2005), Panama (2005).

OPIC and Other Investment Insurance Programs

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The Overseas Private Investment Corporation (OPIC) in 2004 resumed financing and 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 will review its activity in Ukraine in the near future if progress toward resolution of this dispute is not made.

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. Ukraine is a member of the Multilateral Investment Guarantee Agency (MIGA). In 2005 MIGA issued an USD 18.1 million guarantee to Raiffeisen Bank of Austria to provide coverage against the risks of transfer restriction and expropriation its subordinated shareholder loan to Joint Stock Commercial Bank Raiffeisenbank Ukraine.

Labor

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LABOR AVAILABILITY

Ukraine has a well-educated and skilled labor force with nearly a 100% literacy rate. The official (registered) unemployment level is low, 2.9 percent as of November 2005, but these figures are misleading. Most experts agree that reported unemployment is understated: the real unemployment rate is closer to 8 percent.

WAGES

Wages in Ukraine are very low by Western standards but increased significantly over the past year. In November 2005, the nominal average monthly wage in Ukraine was UAH 896.58 (USD 178), up 39% from 644.27 (USD 128) in November 2004. The highest wages are in the financial and credit sectors while the lowest wages were paid to agricultural and public health workers.

MINIMUM WAGE

The minimum monthly wage was increased in 2005 to UAH 332 (up from UAH 237 in 2004). According to Ukrainian legislation, the minimum wage is adjusted whenever consumer price increases reach 5%. The 2006 state budget stipulated further gradual increases of the minimum wage to UAH 350 as of January 1, to UAH 375 on July 1, 2005 and to UAH 400 on December 1 2006. The GOU announced that by 2007 the minimum wage in the country would reach the subsistence level.

LABOR/MANAGEMENT RELATIONS

Ukrainian workers are generally accustomed to “top-down” management practices and therefore usually do not demonstrate initiative. A younger, more independent-minded generation is slowly moving into the workforce, and it is becoming easier to find professional personnel who function independently.

Although investors may encounter government resistance to trimming the work force to an efficient level, across-the-board demands to maintain employment levels are disappearing. Ukrainian enterprises often 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.

Foreign-Trade Zones/Free Ports

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FOREIGN TRADE ZONES

As of September 2005, there were 11 Free Economic Zones (FEZs) and 9 priority development territories (PDT). A law “On the Amendments to 2005 Budget of Ukraine” dated March 23, 2005, cancelled import duty exemptions and other benefits to FEZs that had been meant to encourage investment and production of goods for export. The IMF and the World Bank had repeatedly expressed concern about the zones, strongly supported the elimination of tax exemptions, and urged the GOU to resist pressures to reopen the tax loopholes closed in the 2005 budget amendments. In cases of foreign direct investment, where the conditions for the privileges had been met by the investing firms, the IMF and the World Bank suggested that the GOU determine whether compensation may be due to some investors. President Yushchenko reported the GOU was working on the development of such compensation mechanisms, but none had been put in place by the end of 2005.

FREE PORTS

Porto-Franco FEZ in Odessa Port was a free port until all FEZs’ privileges were cancelled by the 2005 budget. In total, Ukraine has 20 seaports and 10 river ports located on the Black Sea, the Sea of Azov, and the Danube, Yuzhniy Bug and the Dnipro 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.

FOREIGN DIRECT INVESTMENT

According to Ukraine's State Statistics Committee, foreign investment in Ukraine grew by 10.8% from January through September 2005. As of January 1, 2005, the stock of FDI in Ukraine was USD 8.35 billion, which is USD 177 per capita, one of the lowest levels of FDI in the states of the former Soviet Union. Annual FDI in Ukraine's neighbor, Poland, was nearly 5 times as high. Over nine months of 2005, foreign direct investment grew by over USD 932.2 million to USD 9.53 billion as of October 1, 2005, which is USD 202 per capita. During this period USD 1.32 billion in foreign investment entered Ukraine while USD 250 million were withdrawn. Mittal Steel's October 2005 purchase of the Kryvorizhstal Steel Mill represented USD 4.8 billion in FDI in Ukraine.

FDI BY COUNTRY

In all, 117 countries invested in Ukraine. As of October 1, 2005 Ukraine's major investors included: Cyprus (15.3%), the United States (12.8%), the United Kingdom (11.0%), Germany (6.6%), the Netherlands (6.2%), Virgin Islands (7.4%), Russia (5.8%).

FDI BY INDUSTRY SECTOR DESTINATION

Over the first 9 months of 2005, 17.4% of FDI went to domestic trade: 12.2% -- to food processing, 8.8% -- to real estate, 7.6% -- to the financial industry, 7.2% -- to machine-building, 5.3% to the chemical industry.

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Cabinet of Ministers of Ukraine - <http://www.kmu.gov.ua/control/en>

State Statistics Committee of Ukraine - http://www.ukrstat.gov.ua/menu_en.html

Kiev city Administration - <http://www.kmv.gov.ua/>

Ukrainian Legislation - <http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?user=annot>

US DOC Business Information Service for the NIS (BISNIS) - <http://bisnis.doc.gov/>

UkrBiz.Net Portal - <http://ukrbiz.net/eng/index/first/>

US State Department Ukraine page - <http://www.state.gov/p/eur/ci/up/>

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Chapter 7: Trade and Project Financing

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How Do I Get Paid (Methods of Payment)

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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 National Bank of Ukraine (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).

How Does the Banking System Operate

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The Ukrainian banking system consists of the central bank - the National Bank of Ukraine (NBU), and commercial banks of various classifications. The NBU is responsible for monetary circulation, registration of commercial banks and oversight of their activities, and sometimes intervenes in the currency market to moderate changes in the exchange rate. As of January 1, 2005, 182 banks were registered in Ukraine, including 19 with foreign capital backing (7 of them with 100% foreign capital.) Overall the Ukrainian banking sector remains small in size with total assets in the system of less than USD 20 billion and low ratios of total bank capital to GDP (< 5 %) and average bank deposits of approximately 24% of GDP.

Foreign-Exchange Controls

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The foreign exchange rate policy of the National Bank of Ukraine ensures stability of the rate of hryvnia versus the U.S. dollar. In 2005 the average annual exchange rate of hryvnia vis-à-vis the U.S. dollar was at a level of UAH 5.05 for one U.S. dollar. 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 USD

50,000 has to be approved by the NBU, and the NBU charges a fee to review the transaction.

In 2003 the National Bank of Ukraine has taken some steps with regard to the foreign exchange market liberalization towards extension of capabilities of enterprises and private persons to conduct foreign exchange transactions; at the same time a number of measures has been taken in order to prevent the illicit foreign exchange abroad. According to the National Bank of Ukraine modifications to the Currency Regulations (effective January 14, 2003), banks and companies in Ukraine can enter into forwards (including forward-outright and currency swaps) and do it freely within the "NBU 1 classifier" currencies (the USD, the EUR, the GBP). Those forwards or currency swaps can be entered into for hedging purposes. Even if the contract or the invoices are labelled in one of the "NBU 1 classifier" currencies, companies are free to settle their purchases abroad or to receive proceeds from abroad in another currency of the "NBU 1 classifier". This is also applicable to cross border loans. Purchasing currencies in order to pay Promissory notes/Bills of exchange (drafts) in favour of non-residents under import contracts became possible. Bills of exchange can be accepted for import of goods and services by Ukrainian residents and paid at maturity, if the relevant contracts and delivery evidences (customs declarations, acts of acceptance) are provided.

U.S. Banks and Local Correspondent Banks

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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. Despite these facts, foreign banks are not very active in Ukraine yet, in comparison to other eastern European countries.

However, the last quarter of year 2005 brought a substantial inflow of foreign capital into Ukraine including an acquisition of Bank Aval by Raiffeisen International Bank-Holding AG for over USD 1 billion. This event signaled the beginning of an advent of major international financial institutions, first of all banks and insurance companies, that are entering the Ukrainian market through acquisition of leading local market players. Experts anticipate that several other major Ukrainian banks will be bought by international financial institutions in 2006. This phenomenon has a crucial importance for the stability of Ukraine's financial system, its incorporation into international financial markets, and for the overall Ukrainian economy always suffering from deficiency of affordable financial resources.

Since 1997 the U.S. Citibank has established full subsidiary in Ukraine. This is the only U.S. bank operating in Ukraine with an office. Among the U.S. banks that have correspondent relations with Ukrainian banks are: American Express Bank, Bankers Trust Company New York, Citibank N.A., the Chase Manhattan Bank, Republic National Bank of New York and the Bank of New York. These banks have correspondent relations with the National Bank of Ukraine and all major Ukrainian banks.

Project Financing

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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 **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.

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 **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.

The **U.S. Trade and Development Agency (TDA)**: TDA's assistance to Ukraine has focused on the funding of feasibility studies, particularly those that create long-term cooperative relationships between U.S. firms and their Ukrainian counterparts.

The **Western NIS Enterprise Fund**, capitalized with USD 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 USD 500,000 and USD 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 USD 100,000 to small businesses and entrepreneurs.

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 Kiev Regional Office to date has distributed over USD 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 USD 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.

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Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

8/15/2006

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/cc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

European bank for reconstruction and Development:
<http://www.ebrd.com/country/country/ukraine>

The World Bank: <http://www.worldbank.org.ua>

The National Bank of Ukraine: <http://www.bank.gov.ua>

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Chapter 8: Business Travel

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Business Customs

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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 not that many 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 in mind will also be gestures not soon forgotten.

Travel Advisory

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Please review the Consular Information Sheet available on the U.S. Department of State's Bureau of Consular Affairs web site:

http://travel.state.gov/travel/cis_pa_tw/cis/cis_1053.html.

Tourist Information including money, communication, etiquette, shopping, airports etc. is available on the web site of the Embassy of Ukraine in Washington D.C.-

<http://www.ukraineinfo.us/travel/tourism.html>

Visa Requirements

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A passport valid for six months beyond the planned date of travel is required. According to Ukrainian Presidential Decree #1008 dated June 30, 2005 (with amendment dated August 18, 2005), U.S. citizens traveling to Ukraine on short-term tourist, business or private travel do not need a visa to enter Ukraine. Visas are still required of other categories of travelers including those who intend to study, reside, or work in Ukraine. Short-term travelers entering Ukraine under the auspices of this decree can stay in Ukraine up to 90 days. Any requests for extension of stay due to extenuating circumstances should be directed to the Ministry of Interior's Department of Citizenship, Immigration and Registration (formerly known as OVIR). Extensions are not automatic, however, and are valid only for continued presence in the country. It is not possible to depart Ukraine and return on the extension, nor can an adjustment to visa status be made from within Ukraine.

Visas may be obtained from the Consular Office of the Embassy of Ukraine in Washington, D.C. or from Ukrainian Consulates General in New York, Chicago or San Francisco. For additional information about Ukrainian visas and related policy, please contact the Ukrainian Embassy or Consulate nearest you.

Embassy of Ukraine in Washington D.C. - <http://www.ukraineinfo.us>

Consulate General of Ukraine in New York - <http://www.ukrconsul.org>

Consulate General of Ukraine in San Francisco - <http://www.ukrainesf.com>

Consulate General of Ukraine in Chicago - <http://www.ukrchicago.com>

If you are outside of the United States, you can obtain a visa from a Ukrainian diplomatic representation abroad.

The Government of Ukraine does not issue visas at the point of entry into Ukraine. Travelers whose purpose of travel puts them in a category that requires a visa must obtain the correct Ukrainian visa prior to arrival, otherwise they will be turned back to the United States or will have to travel to another European country to obtain a visa. Such travelers incur additional costs and serious disruptions to their travel plans.

Information on entry requirements to Ukraine for American Citizens is available on the

For more details please visit:

U.S. Embassy's web site -

http://kiev.usembassy.gov/amcit_travel_ukrentry_eng.html

U.S. Department of State's Bureau of Consular affairs web site -

http://travel.state.gov/travel/cis_pa_tw/cis/cis_1053.html

U.S. Companies that require travel of foreign businesspersons to the United States should review information on U.S. visa policy and procedures available on the following links:

U.S. Department of State's Bureau of Consular affairs web site:

http://travel.state.gov/visa/visa_1750.html

<http://www.unitedstatesvisas.gov/>

Telecommunications

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For telephone service information please visit the web site of the Embassy of Ukraine in Washington D.C.: http://www.usemb.kiev.ua/amcit_misc_telephone_eng.html

Communication information including phone codes of Ukrainian regions is available on the web site of the Embassy of Ukraine in Washington D.C.:

<http://www.ukraineinfo.us/travel/tourism.html#5>

Please see Chapter 4: Leading Sectors for U.S. Export and Investment - Telecommunications

Transportation

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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 taxies can be ordered by dialing: 0-58, 234-4444, 574-0574, 238-8238. Rent-a-car service. International trademarks Avis (Tel: 490-7333), Hertz (Tel: 494-4935/4936), 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.

Almost all international flights to Kyiv arrive at Boryspil International Airport (<http://www.airport-borispol.com.ua>), located 30 kilometers from the city center. The departure and arrival lounge features a Duty-Free shop and Irish bar. The other main airport, which handles mostly domestic flights, is Zhuliany-Kyiv, located 7 kilometers from the center of Kyiv. 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

For traffic safety and road conditions please visit the U.S. Department of State's Bureau of Consular affairs web site: http://travel.state.gov/travel/cis_pa_tw/cis/cis_1053.html.

Transportation information including public transportation, taxis, transportation service contacts etc. is available on the web site of the Embassy of Ukraine in Washington D.C.: <http://www.ukraineinfo.us/culture/culture.html>

Language

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Ukrainian is the official state language of Ukraine since 1990. However, Russian is widely used in Kyiv and especially in the cities of eastern Ukraine (to a much lesser extent in western Ukraine). Although those in the political world and the local media use both languages, official documents are in Ukrainian. 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).

For more information please visit the web site of the Embassy of Ukraine in Washington D.C.: <http://www.ukraineinfo.us/culture/culture.html>

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.

Medical information including medical evacuation and insurance, medical services in and outside of Kyiv is available on the U.S. Embassy's web site:
http://www.usemb.kiev.ua/amcit_medical_eng.html

Information on medical facilities and insurance is available on the U.S. Department of State's Bureau of Consular affairs web site:
http://travel.state.gov/travel/cis_pa_tw/cis/cis_1053.html

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.

To find out exact time in Ukraine, please visit
<http://www.timeanddate.com/worldclock/city.html?n=367>

Work week: 40 hours per week
 Normal business hours: 9 a.m. – 6 p.m.

Holiday	Day	Date
New Year's Day	Sunday, Mon.	January 1, 2
Orthodox Christmas	Sunday, Mon.	January 8, 9
International Women's Day	Wednesday	March 8
Orthodox Easter	Sunday, Mon.	April 23, 24
International Labor Day	Monday, Tue.	May 1, 2
Victory Day	Tuesday	May 9
Holy Trinity	Sunday, Mon.	June 11, 12
Constitution Day	Wednesday	June 28
Independence Day	Thursday	August 24

Please note that when a Ukrainian holiday falls on Saturday or on Sunday, it is usually observed on Monday; when on Saturday and on Sunday – it is usually observed on

Monday and Tuesday. The Cabinet of Ministers of Ukraine may make additional changes in the holiday schedule during the year.

For updates please visit U.S. Embassy's web site:
http://web.usembassy.kiev.ua/holidays_eng.html

Temporary Entry of Materials and Personal Belongings

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According to Ukrainian law, foreign citizens bringing more than USD 10,000 in cash or USD 50,000 in checks into Ukraine must obtain a special license (all cash should be declared upon entry into the country). Amounts of less than USD 10,000 in cash or USD 50,000 in checks can be imported without this license.

Ukrainian Customs Procedures for Transporting Currencies, Monetary Instruments, or Precious Metals is available on the U.S. Embassy's web site:
http://www.usemb.kiev.ua/amcit_travel_ukrcustoms_eng.html

Information on customs regulations is available on the following web sites:
U.S. Department of State's Bureau of Consular affairs:
http://travel.state.gov/travel/cis_pa_tw/cis/cis_1053.html
Embassy of Ukraine in Washington D.C.: <http://www.ukraineinfo.us/travel/customs.html>.

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Travel information is available on the web site of the Embassy of Ukraine in Washington D.C.: <http://www.ukraineinfo.us/travel/travel.html>

Ukraine's tourist information such as general overview, main attractions and places of special interest is available on the web site of the Embassy of Ukraine in Washington D.C.: <http://www.ukraineinfo.us/travel/places.html>

Maps of Ukraine are available on the web site of the Embassy of Ukraine in Washington D.C.: <http://www.ukraineinfo.us/about/map.html>

Information on banking and delivery services in Ukraine is available on the U.S. Embassy's web site: http://www.usemb.kiev.ua/amcit_misc_eng.html

Web-search engine for Ukraine: <http://meta-ukraine.com/en/>

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Chapter 9: Contacts, Market Research, and Trade Events

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Contacts

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THE U.S. EMBASSY IN UKRAINE

<http://www.usemb.kiev.ua>

Foreign Commercial Service (FCS)
Robert Shipley, 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
<http://www.BuyUSA.gov/Ukraine>

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
<http://www.amcham.kiev.ua>

GOVERNMENT OF UKRAINE

<http://www.kmu.gov.ua/control/en>
<http://www.president.gov.ua/eng/>

STATE STATISTICS COMMITTEE OF UKRAINE

<http://www.ukrstat.gov.ua>

NATIONAL BANK OF UKRAINE

<http://www.bank.gov.ua>

Market Research

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To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

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Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents.html>

<http://www.buyusa.gov/ukraine/en/events.html>

Please click on the link below for information on upcoming local trade shows/exhibitions.

<http://www.expoua.com/eng/exhibs/r2000000.html>

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research.
- Promote your products and services to qualified buyers.
- Meet the best distributors and agents for your products and services.
- Overcome potential challenges or trade barriers.

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

<http://www.buyusa.gov/ukraine/en/8.html>

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.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.