



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 today is in the early stages of an economic boom, which is fast turning the country into one of the most exciting commercial opportunities in Europe. With a well-educated workforce, famously rich agricultural land, infrastructure linking the country to Europe and Russia, and rich mineral and potential energy resources, Ukraine has the potential to become one of the economic bellwethers of the next decade. With plans to join the WTO in 2008, Ukraine has achieved progress in opening its market to exports and investment. For much of the last 15 years, however, political instability, slow economic reform, and corruption have retarded economic growth.

With a population of about 47 million, Ukraine is officially an \$160 billion economy, dominated by heavy and light industry, exporting of steel and minerals, oil and gas transit, coal and mineral extraction, oil refining, chemicals, agriculture, and food processing. We believe that Ukraine's official GDP is under-estimated because as much as a third or more of local economic activity operates in the so-called "shadow economy," not reflected in official statistics.

In 2005 - 2007, Ukraine received a record high amount of foreign direct investment (FDI), bringing total FDI in Ukraine to \$ 27 billion or \$576 per capita. This was a 35.2% increase from October 2006, when the total stock of FDI stood at \$19.9 billion, or \$424 per capita. Despite the strong increase, total FDI was still far below levels in most Central and Eastern European countries. Overall U.S. investment share does not exceed 5.3% of the total FDI. Russian and European exporters dominate the Ukrainian market. U.S. exports are steadily climbing using the advantages of cheap USD and a growing purchasing capacity of the Ukrainian corporate and consumer sectors.

Several major trends are shaping this very dynamic market:

- Ukraine's early 2008 entry into WTO will bring increased market transparency and greater potential for sales of low-cost food and consumer products.
- The entry of major international banks and insurance companies into the market is creating greater financing options for importers.
- The removal of Russian-subsidized natural gas supplies will lead to increased energy prices, and an increased drive for energy efficiency and alternative sources of power.
- The Ukrainian owners of major Ukrainian firms are seeking access to global capital markets, and developing more transparent accounting systems and business processes.

Market Challenges

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Importers face troublesome customs, licensing, and certification procedures. Local companies are often subject to high payroll taxes and unfair tax collection practices. An underdeveloped market for financial assets, weak protection of ownership rights and a shadow economy pose obstacles to the efficient use of capital, isolate average citizens from investment opportunities and often lead to market bubbles (e.g. in residential real estate, land). Corruption remains a problem throughout the central and local governments. 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. A long lasting parliamentary crisis delayed action on many economic reform measures.

Market Opportunities

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- *Euro 2012 Infrastructure development:* As Ukraine prepares to host the Eurocup in 2012, the country will make an estimated \$25 billion investment in upgrading of transportation and hospitality infrastructure.
- *WTO accession:* WTO accession – and continued market growth – will make Ukraine a more attractive consumer market.
- *Energy alternatives:* To reduce dependence on subsidized natural gas, Ukraine is pursuing offshore and on-shore oil and gas exploration, investment in nuclear power, alternative energy, and energy efficiency technology.

Market Entry Strategy

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U.S. companies entering the Ukrainian market should approach with a long-term perspective. We encourage companies to contact the U.S. Commercial Service staff at the U.S. Embassy in Kyiv for a basic orientation to the market. Joining the American Chamber of Commerce and obtaining experienced legal and accounting support are other basic steps. Business in Ukraine is often based on relationships, so selecting a good local partner and/or establishing a local office are crucial to long-term success. U.S. companies should use appropriate due diligence in selection of partners and should be mindful of the parameters of the Foreign Corrupt Practices Act. While many U.S. firms have experienced marked success here, Ukraine is not a market for the first-time exporter. Companies doing business here must develop a tolerance for uncertainty, and the persistence to overcome obstacles to doing business.

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/3211.htm>

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Using an Agent or Distributor

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The world of Ukrainian business is based on personal relationships. In an economy where rule of law is not yet firmly established, the quality and depth of key business relationships are often your best protection against loss, and your key to market access.

Selection of a local partner (or partners) is probably the most important decision your company will make in its market entry. It is also potentially one of the riskiest decisions: there have been numerous cases in which foreign companies have found themselves defrauded or their assets taken over by their trusted local partners. Kyiv is not the only hub of trade in Ukraine. Look for distributors that have nationwide capabilities, including those located in the cities of Dnipropetrovsk, Donetsk, Lviv, Odessa, Zaporizhzhya, and Kharkiv. These regions are considered important industrial centers of Ukraine and are densely populated. We strongly advise against covering the Ukrainian market from regional offices in Poland or Russia. On-the-ground presence is crucial to business development here.

To find a potential partner, we recommend the U.S. Embassy's Commercial Service's International Partner Search and Gold Key programs to conduct initial screening. (For more details please refer to <http://www.buyusa.gov/ukraine/en/8.html>)

Establishing an Office

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A foreign company starting business here has the choice of forming a joint stock company, a limited liability company, a wholly-owned subsidiary, or a representative office. For regulatory and taxation purposes, representative offices are treated as independent legal entities, with some exceptions. A representative office can carry out marketing, promotional, and other auxiliary functions. 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. A foreign legal entity may have both a representative office and a wholly-owned subsidiary.

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 \$2,500 fee (<http://www.mfa.gov.ua/usa/en/publication/content/14623.htm>). We recommend that U.S. firms work with local law firms or business advisory services to ensure this registration is carried out properly and in a timely manner.

For relevant regulations, please refer to:
<http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi>
<http://zakon.rada.gov.ua/>

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.

Association of Regional Recruiting Agencies of Ukraine (ARKA): <http://www.arka.com.ua>

Franchising

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At this point in Ukraine's market development, we do not recommend franchising as a viable alternative for market entry. Lack of intellectual property protection, barriers to small business development, an over-priced real estate market, and the continued presence of organized crime make this a high-risk, low potential option for most U.S. franchising firms, except for the very largest and best financed.

Ukrainian Franchise Association: <http://www.franchising.org.ua/eng/index.htm>
Association Development Franchise in Ukraine: <http://www.adfu.org.ua/english.html>

Brand4Rent 2008 Exhibition (March 26-29, 2008, Kyiv, Ukraine):
<http://www.pe.com.ua/new/exh/exhdet.php3?id=83&lang=3>
International Franchise Expo "Franchising 2008" (November 12-14, 2008, Kyiv, Ukraine):
<http://franchising.euroindex.ua/indexe.php>

Direct Marketing

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Direct marketing has had mixed success in Ukraine, and companies should rely on the guidance of their local partner and local advertising firms in deciding on techniques. Direct sales (the Amway model) have worked remarkably well in this region for herbal products, cosmetics, and small-scale consumer goods. The direct sales market in Ukraine demonstrated a growth of 30% in 2004-2006 and reached \$ 339 million. The trend continued in 2007. Top five direct sales companies in Ukraine are: Amway, Avon, Faberlic, Mary Kay, and Oriflame. The number of independent distributors in 2006 was 685,000. Telemarketing and direct mail are unlikely to be successful (except in selected niche markets) due to the impersonality of the approach, and the importance Ukrainians place upon personal relationships.

Joint Ventures/Licensing

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Joint ventures between Ukrainian and Western partners became popular in Ukraine soon after independence. While many of these projects (such as Boeing's Sea Launch) became notable successes, many degenerated into acrimonious business disputes due to the inexperience of Ukrainian and Western business partners and weaknesses in the Ukrainian legal system. U.S. companies pursuing this option should employ excellent legal advice and seek to structure the entity as an off-shore business organization where international – not Ukrainian – laws apply.

Licensing a product for local manufacture, on the other hand, is a very viable market entry strategy, but one that has not been widely attempted. Ukrainian manufacturers can often offer low-cost production plus an already established set of customers and distributors both in Ukraine and the former Soviet Union. Intellectual property protection, while improving, remains weak, however, and U.S. companies should avoid sharing critical technologies.

Selling to the Government

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Although a recent study on Ukraine by the Atlantic Council of the United States concluded that "government procurement is one of the most corrupt spheres of state activity", large and increasing levels of international support for the Ukrainian government make Ukrainian government procurement an important export opportunity for U.S. companies. We strongly recommend you track the tender announcements of the World Bank, the European Bank for Reconstruction and Development (EBRD), and the United Nations Development Program (UNDP) for opportunities.

The presence of a Western tender organizer often makes selling to the government a more transparent practice, with published deadlines, proposal criteria, and more importantly, Western oversight in making final procurement decisions. Although Ukraine is not a signatory of the WTO Agreement on Government Procurement, Ukraine has pledged to become a party to the agreement one year after its WTO accession. Several legislative proposals to reform government procurement have been introduced into the parliament.

Sources of information:

www.zakupivli.com

<http://www.dgmarket.com/eproc/>

Distribution and Sales Channels

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The sheer geographic size of Ukraine, and its relative lack of clumped population dispersion (only slightly over 10 percent of Ukraine's population lives in the three largest cities), make establishing a reliable distribution and warehousing network of great importance. The Ukrainian commercial infrastructure has matured rapidly in recent years. Western-style distribution networks are developing in the country.

Ukraine has an increasingly sophisticated retail sector, most highly developed in Kyiv and other major cities. 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-air markets.

The key to marketing to the industrial sector is the quality of your agent or distributor's regional network. Marketing is done largely through distributor warehouses, exhibitions and trade shows, and catalogs mailed to the end-user. Leasing and the contribution of equipment to a joint venture's statutory funds can also be effective marketing techniques.

Problems have arisen for U.S. companies that sell through their Euro-zone distributors. Unfavorable currency exchange rates and higher European taxes and/or duties may decrease the price competitiveness of U.S. products. Additionally, working through European distributors 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.

Selling Factors/Techniques

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Locally-produced promotional advertising 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 develop new customers. High quality Ukrainian language labels featuring product description, list of ingredients, warranty, and maintenance guarantee often improve consumer confidence in a particular product. The name of a Ukrainian or Russian distributor and local address on original packaging can also boost consumer confidence. 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.

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Some years ago the underdeveloped bank card system, limited number of internet users, and lack of legal norms needed to regulate e-commerce (especially B2B) were the main obstacles for e-commerce development. Ukraine remains a cash economy, but the use of credit cards is on the rise. From January through September 2007, the use of credit cards increased by 13% and use of ATM cards increased by 51%, despite widespread credit/ATM card fraud in Ukraine. However, both B2C and B2B segments of e-commerce are still in their initial development. Most Ukrainian Internet shops offer price lists or advertising sites where users can place orders. Many Internet shops accept online payments from clients of their partner banks only.

B2B e-commerce has experienced a successful start in metals trading, IT, and transport services. Controlling government bodies (e.g. tax inspectorate, customs) remain skeptical and negative. Psychological mistrust and conservatism seem to be the main obstacles for further development of e-commerce in this country.

CS Kyiv 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>).

Please refer to the following e-commerce sites:

<http://furshet.ua/>

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

<http://www.ukraineinternational.com/eng/uk.html>
<http://e-commerce.com.ua/>

Trade Promotion and Advertising

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While Ukraine's advertising industry is enjoying one of the highest growth rates in Europe, it is still less developed than in most neighboring countries, where growth rates are lower but per capita spending on advertising is significantly higher. Almost two-thirds of the advertising market is television and radio, which remain the most powerful advertising channels. The most popular TV channels for advertising remain 1+1, Inter, and ICTV. 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 14% of the advertising market. The major Ukrainian papers/journals include:

- Business Ukraine (www.businessukraine.com.ua)
- Fakty i Kommentarii/Facts and Commentary (www.facts.kiev.ua);
- Silski Visti/Countryside News (<http://silskivisti.kiev.ua>);
- Uryadovyy Kuryer/Government Courier (<http://uamedia.visti.net/uk/>);
- Aviso/advertising and announcements (www.aviso.kiev.ua).

The major English-language newspapers/journals are:

- Kyiv Post (www.kyivpost.com);
- KyivWeekly (www.kyivweekly.com);
- What'sOn (www.whatson-kyiv.com).

On request, Commercial Service (CS) Kyiv can provide an extensive list of advertising and public relations 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>).

National trade shows and exhibitions continue to be effective ways to introduce your products to industrial buyers. Major local trade show organizers and fair authorities include:

- Euroindex (<http://www.euroindex.com.ua/indexe.php>),
- Medvin (<http://www.medvin.kiev.ua/news.php>),
- PremierExpo (<http://www.pe.com.ua/new/index.php3?lang=3>),
- ACCO International (<http://www.acco.ua/eng/index.html>),
- International Exhibition Center (<http://www.iec-expo.com.ua/eng/index.php3>),
- KyivExpoPlaza (<http://www.expoplaza.kiev.ua/index.php?j=e&ide=1>).

CS Kyiv actively promotes American exporters at major local trade shows by mounting and staffing U.S. Product Literature Centers (see <http://www.buyusa.gov/ukraine/en/28.html>).

Pricing

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Generally speaking, U.S. companies operating in Ukraine should take into account the unique features and challenges of this developing market. Rather than trying to impose sales policies used in Asia or Africa, a flexible and cooperative approach natural for Central Europe markets, and oriented toward a long-term presence in the market, is much more likely to bring desired results.

When establishing prices, consider the purchasing power of the average Ukrainian consumer. As of October 2007, the nominal average monthly wage in Ukraine was UAH 1475 (\$292), up 35.6% from UAH 1088 (\$215) in October 2006.

When developing pricing, consider 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-55 and over-55 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 have become part of the low-income population. 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.

The Cabinet of Ministers has price-setting authority in certain sectors, including basic fees (e.g. electricity, telecommunications, transportation, utilities) and some essential products such as grain, bread, sugar, gas, and oil.

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/>

Sales Service/Customer Support

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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 well-known international brand name is not accompanied by after-sale services and customer support, he or she often assumes this product is a counterfeit. 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 market demand.

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.

Protecting Your Intellectual Property

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For information on Intellectual Property Rights issues please refer to Chapter 6, "Investment Climate Statement," section A7.

Due Diligence

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There is not yet an established system for checking the financial status of a Ukrainian partner, and information on bona fides of potential Ukrainian partners should be treated with caution. Banks do not provide information on the financial status of their clients, and there is no nationwide service for registering enterprises of doubtful solvency. While the extent of available data on Ukrainian companies has improved, ownership and credit history information on potential Ukrainian distributors is still very limited.

When entering into a contract with a Ukrainian company, U.S. companies should 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. Paying unusually high commissions to a distributor, hiring a representative who is a relative of a local government official, and other improper advantages and accounting practices are subject to criminal and civil liability under anti-bribery legislation in the United States.

A new service is offering due diligence services and company profiles, with listing of over 3,600 local firms (see <http://www.ftnmonitor.com>).

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

Local Professional Services

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Kyiv has an increasing array of high quality Western professional services firms. The best initial point of contact for accessing these is the American Chamber of Commerce (see <http://www.amcham.ua>).

Leading e-business service providers can be found at <http://www.buyusa.gov/ukraine/en/bsp.html>

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Computer Software/Services (CSF) and Computers Peripherals (CPT)

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CSF

Imported software dominates on the office software market and on the market of software solutions for government, businesses and industry. Windows and Microsoft's 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 pirate office software, illegal use of software licenses and domestic pirate industry production have a severe impact on the size of the legitimate software market. They also have an impact on sales statistics: to fight piracy many PCs are sold with preinstalled software. Therefore, official sales statistics show higher numbers for hardware and lower numbers for software. However, most U.S. and international suppliers of software report strong annual sales growth ranging from 15% to 40% for several years in a row. 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 is an impressive growth in sales to households, small and medium businesses. However, these sectors are most price sensitive. They are also primary targets for distributors of illegal software.

CPT

The exact size and structure of the Ukrainian computer hardware market is difficult to measure, since local assembly and shadow imports of components remain among the key factors that determine the structure of the market. Sales estimates for 2006 vary from 1.54 million units to 1.3 million or \$ 650-550 million in monetary terms. Preliminary results of 2007 sales show a strong decline in growth rates for desktop PCs: from 32% in 2006 to 10% in 2007 versus 116% sales growth rate for notebooks. According to IDC, the total number of PCs sold in Ukraine in 2007 reached 2.2 million units including 1.4 million desktop PCs and 0.5 million laptops. Fifty-three percent of the market belongs to PCs priced below \$400, thirty-seven percent to PCs priced at \$400-600. Although desktop PCs assembled in Ukraine currently account for more than two-thirds of the market, their share is steadily declining. Several major local assembly centers have downsized or closed. Import duties and customs fees are no longer a barrier and leading international brands are slowly conquering the market. Some industry experts anticipate that there will be 2.86 million PCs (including 0.725 million laptops) sold in Ukraine in 2008.

The market of servers follows the same trend. Local manufacturers accounted for 49% of the market for x86-servers in 2006. In the first half of 2007 their market share went down to 40%. The share of imported x86-servers grew accordingly. In 2006 sales of x86-servers accounted for 69% of the local market (in monetary terms). The share of RISC servers was 26%, while EPIC servers claimed 5% of the market. The share of CISC servers was 0.5%.

One important change occurred in the retail trade of computers and peripherals: supermarkets of consumer electronics sold more computers than specialized computer

stores. This factor may totally reshuffle distribution channels and motivate local computer companies to restructure and get rid of their retail divisions.

Best Prospects/Services

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- Operating systems, office applications, accounting programs, multimedia
- Security solutions
- Computer software services

Opportunities

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- high quality software development.
- Private and corporate procurement tenders: <http://uatender.com/category/03>
- Government procurement tenders:
http://www.zakupivli.com/control/en/publish/article?showHidden=1&art_id=575386

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Association IT Ukraine: <http://www.itukraine.org.ua>

Euroindex, leading organizer of IT trade shows in Ukraine:

<http://www.euroindex.com.ua/index.php?m=1&lng=e>

Leading IT publications and catalogs:

<http://www.itcpublishing.com/ua/?lang=en>

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

Association of computer clubs: <http://www.uacc.org.ua/en>

The revival of the Ukrainian economy after 2000, as well as foreign and domestic investments in telecommunications made over the last 15 years, has brought marked changes to the Ukrainian telecom industry, particularly in mobile wireless and data transfer. However, the lack of transparency and slow decision making in licensing and frequency allocation, corrupted procurement practices and continuing delays with the privatization of Ukrtelecom (the national telecom carrier), as well as ongoing disputes between Ukrtelecom and private telecom operators seriously hurt the development of the entire telecom industry. Telecom industry revenues grew over 23% in 2007. Sales in mobile telephony, TV& radio broadcasting, fixed local loop grew 28-29%. Mobile telephony leads among other sectors with 62% market share. It is followed by long-distance and international communications (15%), fixed local loop (10%), and data transfer (4%).

In January 2008 Ukrainian Government decided to sell over 60% of Ukrtelecom through open tender by mid-year.

Mobile Telecommunications

Five Ukrainian GSM operators – MTS Ukraine, Kyivstar GSM (majority shareholder: Telenor), Astelit (majority shareholder: Turkcell, trade mark: Life), Golden Telecom GSM, and Ukrainian Radio Systems (majority shareholder: Vypelcom, trade mark: Beeline) service over 51 million customers. Reportedly, the two leading mobile operators, MTS and Kyivstar have over 20 million customers each, while other operators lag far behind. With this level of market penetration, growing competition and the overwhelming dominance of the voice component in the mobile traffic, the numeric growth of the GSM customer base is no longer a priority, and mobile operators are actively pursuing new strategies to increase their revenues. In November 2007, Ukrtelecom launched a 3G (UMTS) mobile network using Nokia Flexi WCDMA technology and a comparable technology solution supplied by Huawei. Thus far, Ukrtelecom's 3G network covers only seven major Ukrainian cities. An alternative private 3G operator PEOPLEnet launched CDMA EV-DO technology based services in early 2007. Although other major mobile carriers sought 3G licenses and spectrum, their requests have been denied so far. In November 2006, the Ukrainian government issued 30 regional WiMAX licenses. In October 2007, Ukrainian-British JV Pan-Wireless bought a nationwide WiMAX license for the spectrum band of 5,730-5,760 GHz.

Internet & Data Transfer

As of May 2007 there were close to 5 million Internet users in Ukraine. Unfortunately, the geographic distribution of Internet users is very uneven. Kyiv, the capital accounts for over 61%, the share of six other big cities (Dnypropetrovsk, Odessa, Kharkyv, Lviv, Donetsk, Zhaporyzhzhya) is over 27%, while the rest of the country accounts for only 11% of the total number of Internet users. Google (with 65% market share) and Yandex (with 18%) lead among search engines. DSL and Ethernet connectivity turn into a choice of favor for a growing number of Internet customers. In 2007 the number of broadband customers grew 64% and reached 378,000.

Best Prospects/Services

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- 3G
- WiMAX
- Internet connectivity through digital TV cable networks.

Opportunities

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- Privatization of Ukrtelecom
- WiMAX and 3G licenses
- Government procurement tenders:
http://www.zakupivli.com/control/en/publish/article?showHidden=1&art_id=575386

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Official web site of the National Commission for Communications Regulation of Ukraine:

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

Official web site of the State Department for Communications and Information of the Ministry of Transport of Ukraine: <http://www.stc.gov.ua/>

Telecom Club (regular convention of telecom executives and equipment suppliers):

<http://www.telecom-club.org.ua/>

PC Week /UE: <http://www.pcweek.com.ua/>

Security & 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 technology and quality desired, U.S. exporters may find that the local market offers many opportunities, especially in the high-tech end of security products. The rapid growth of private banks and corporations, retail supermarkets and warehouses has been accompanied by an increased demand for security software, smoke detectors, sophisticated wireless security solutions for surveillance, perimeter and access control. Ukrainian companies are willing to pay top dollar for an effective security package.

The local customs, railroads, airlines, airports, law enforcement agencies and private security companies show a growing interest in high-tech antiterrorist equipment, which is not manufactured locally. Import of security and safety equipment into Ukraine requires certification and licensing from relevant Ukrainian government agencies, which is often a cumbersome process. Export of some security items to Ukraine is subject to the export licensing by the U.S. Department of Commerce (see <http://www.export.gov>).

Best Prospects/Services

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- Access control systems
- Equipment for detection of explosives and drugs
- Security software for corporate customers and banking
- Smoke detectors
- Perimeter control systems
- Wireless security solutions.

Opportunities

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- Public procurement tenders:
http://www.zakupivli.com/control/en/publish/article?showHidden=1&art_id=575386

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The State Security Service of Ukraine: <http://www.sbu.gov.ua/eng/>

The Ministry of Interior of Ukraine:

http://www.kmu.gov.ua/control/en/publish/article?art_id=89480&cat_id=73007

BEZPEKA (Security) - Leading Ukrainian annual trade show on safety and security (see <http://www.bezpeka.ua/> for Directory of Participants)

Construction/Building (CON/BLD)

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The Ukrainian market for building materials offers sound opportunities to American exporters. The annual import market for building materials is estimated at \$600 million. German, Italian, Scandinavian, French, and Spanish exporters are aggressively promoting their products. 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.

Prices in remote areas are 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 oriented toward the major industrial regions of Ukraine.

Best Prospects/Services

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- Linoleum (Imported linoleum has better coloring and is over 2 meters wide)
- Carpet and tufted floor covering (There is only one domestic producer)
- Interior ceramic tiles (Imported tiles have better coloring and size variety)
- Insulation (Imported mineral wool has better packaging, size, variety, and price)
- Paints (Local production is abundant for alkyd penta- phthalic oil paints, but there is a shortage of acrylic paint)

Opportunities

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- Lviv-Chop MO6 Road Rehabilitation (EBRD, World Bank)
- Illichevsk Port Modernization (EBRD)
- Expansion of SBK brick production (EBRD)
- Cersanit Invest tile production (EBRD)
- Barlinek floor board production (EBRD)
- Kronospan particle board production (EBRD)

Resources

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

<http://www.bau.ua/sb/index.php>

<http://stroybiznes.com>

Automotive (APS)

Overview

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New car sales surged by 46% in 2007 to 542,000 new vehicles, representing nearly half of total sales, 371,000, last year.

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. Direct imports of autos from the United States 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 Ukrainian market for auto parts is well-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 approximately \$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 \$70 million of the total Ukrainian automotive car market.

Best Prospects/Services

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- Car Body, Engine, Fuel and Electric Parts
- Car Batteries
- Car Filters
- Tires
- Automotive Glass
- Car Security And Anti-Theft Devices
- Brakes and Parts
- Shock Absorbers

Opportunities

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- Build out of Bosch Car Service Centers (EBRD financed)

Resources

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<http://www.autocentre.ua>

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

Agricultural Machinery (AGM)

Overview

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Frequent and unpredictable government interference in the sector, decayed infrastructure and ancient equipment, and a continued moratorium of agricultural land sales have held back the development of Ukraine's agricultural sector and limited U.S. companies immediate sales prospects. Lack of financing remains the most critical issue for buyers, but there are other barriers such as certification, licensing, and taxation. Nonetheless, because of the vast long-term potential of Ukraine's farming sector (and especially the enormous potential in the ethanol and bio-diesel sub-sector), U.S. agribusiness firms with deep pockets and substantial international experience should look to establish a long-term presence here. Most farm equipment is estimated to be more than 70% depreciated and poorly maintained. The potential long-term market for replacing this equipment is estimated to be between \$5 and \$10 billion. About 40 farm equipment manufacturers in Ukraine supply most of the country's ploughs, harrows, cultivators, seeders, and sprayers.

Best Prospects/Services

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- Equipment for bio-fuels and ethanol production
- Grain-harvesting combines and tractors
- Grain, corn, canola headers
- Tillage equipment (cultivators, plows, disc harrows)
- Spaying equipment
- Second-hand farm machinery

Opportunities

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- Land acquisition
- Possible Ministry of Agriculture Tenders

Resources

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Ministry of Agrarian Policy of Ukraine: <http://www.minagro.kiev.ua/?Ing=E>

Agribusiness news:

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

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

<http://www.proagro.com.ua/eng/news/>

Co-located agro-food trade shows – Kyiv AgriHort (agricultural machinery and chemicals) and UkrProdMash (food and drink processing and packaging technologies and equipment):

<http://www.bto-exhibitions.nl> and <http://www.pe.com.ua>

Agribusiness exhibitions in Ukraine:

<http://www.expoua.com/Exhibition/lang/en/region/11/country/52/mode/byCategory/category/24/>

Food Processing and Packaging Equipment (FPP)

Overview

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Food processing is one of the fastest-developing sectors of Ukraine's economy, growing at an estimated 20-30% annually. The opening of the Ukrainian market has brought 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. 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. Ukrainian food producers are upgrading their production facilities and searching for new technologies to remain competitive in the domestic market and to increase exports. The market share for food processing and packaging equipment held by American companies is low in comparison with their European competitors. Nearly 80% of the imports come from major suppliers in Germany, Italy, Sweden, and Denmark.

Best Prospects/Services

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- Dairy equipment
- Baby food production equipment
- Equipment for breweries
- Equipment for producing and bottling beverages
- Fruit and vegetable processing equipment
- Equipment for candy production and packaging

Opportunities

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- Acquisition of domestic food processing firms

Resources

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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/>

<http://www.proagro.com.ua/eng/news/>

Collocated agro-food trade shows – UkrProdMash (food and drink processing and packaging technologies and equipment) and Kyiv AgriHort (agricultural machinery and chemicals): <http://www.bto-exhibitions.nl> and <http://www.pe.com.ua>

Food industry exhibitions in Ukraine:

<http://www.expoua.com/Exhibition/lang/en/region/11/country/52/mode/byCategory/category/11/>

Drugs and Pharmaceuticals (DRG)

Overview

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The Ukrainian pharmaceutical market has shown stable growth for the past five years (25-30% annually). The size of the market was \$1.86 billion in 2006, and \$1.6 billion for the first 9 months of 2007. Imported pharmaceuticals, comprising 67% of the total market in 2006, dominate. The leading pharmaceutical exporter to Ukraine is Germany (about 20% of all imported pharmaceuticals). India holds second place, and France is third. The U.S. share in 2006 was 3.5%. Most multinational pharmaceutical manufacturers are present in the Ukrainian market either with representative offices or through local distributors.

There are over 1,000 licensed pharmaceutical wholesale dealers operating in Ukraine. The market is fragmented, with fewer than 50 wholesalers offering national coverage and selling direct imports.

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.

Best Prospects/Services

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- Analgesics & antibiotics
- Vitamins
- Cough & cold preparations
- Cholagogue-hepatics
- Phycolectics
- Anti-cancer
- Vasotherapeutics.

Opportunities

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- Periodic Ministry of Health tenders

Resources

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

Medical Equipment (MED)

Overview

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The Ukrainian medical equipment market is estimated at 470 million dollars in 2006, and imported equipment dominates. 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.

The Ukrainian market is receptive to advanced medical equipment offering ease of use and cost savings. Receptivity to used medical equipment is average – on the one hand, there is a demand from end-users, but on the other hand, used equipment cannot be purchased through government tenders. However, a potential market for used medical equipment exists, with a preferred approach to allocating buyers (private hospitals and clinics), rather than distributors.

Best Prospects/Services

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- Diagnostic equipment (ultrasound, computer tomographs, magnetic-resonance tomographs)
- Operating-rooms
- Telecommunication equipment for telemedicine
- Clinical laboratory (equipment and supplies)
- Dental equipment and materials
- Laser surgery devices
- Sterilization devices

Opportunities

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- National program “Prevention and treatment of cardiovascular and vascular - cerebral diseases”- equipment for the cardiology center (Kyiv)
- National program “Oncology” – computer tomography and radiographic units for regional oncology centers

Resources

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

Pollution Control Equipment (POL)

Overview

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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.

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.

Best Prospects/Services

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- Waste processing/recycling technologies and equipment
- Wastewater treatment technologies and equipment
- Energy saving technologies in water/wastewater and solid waste

Opportunities

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- Corporatization of municipal utilities
- Carbon credit trading

European Bank for Reconstruction and Development tenders:
<http://www.ebrd.com/country/country/ukraine>

Resources

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

Airport/Ground Support Equipment (APG)

Overview

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Since 2000, the Ukrainian civil aviation industry has demonstrated steady growth in passenger turnover. Ukraine has 22 airports with international status; only seven service regular international traffic. Kyiv-Boryspil (KBP) is the largest Ukrainian airport servicing over 60% of the country's commercial air traffic. The Euro-2012 Soccer Cup games that four Ukrainian cities (Kyiv, Lviv, Donetsk, and Dnipropetrovsk, with Kharkiv and Odessa as alternate sites) will host created a pressing need for airport upgrades and expansions in these cities. The overall cost of airport related opportunities in the six cities are estimated at over US\$1.8 billion till 2011.

The Ukrainian State Air Traffic Service Enterprise (UkSATSE) operates five regional centers of flight information, which cover an area of 730,372 square kilometers and provide navigation services to over 290,000 flights per year (in 2007). The equipment and infrastructure used to provide air navigation services in Ukrainian airspace are in need of update and modernization. The estimated potential sales of necessary equipment and technology will be in excess of \$100 million.

Best Prospects/Services

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- Airport equipment: 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
- Engineering and consultant/management services
- Air Navigation Equipment: satellite-based Communication, Navigation and Surveillance/ Air Traffic Management (CNS/ATM) systems
- Security Systems

Opportunities

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- Euro-2012 related regional airport development: Lviv, Donetsk, Dnipropetrovsk, Kharkiv, Odessa, and Kyiv-City (Zhuliany);
- Two terminals in Kyiv-Boryspil (KBP) airport: Terminal "D" funded by the Japanese government; and Aerosvit's Terminal "E" funded by Aerosvit airlines;
- Air traffic control modernization

Resources

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State Aviation Administration of Ukraine: <http://www.avia.gov.ua>

Kyiv-Boryspil International Airport (KBP): <http://www.kbp.kiev.ua/>

Aerosvit Ukrainian Airlines: <http://www.aerosvit.com/>

Regional Air Navigation Services Development Association (RADA):
<http://www.rada.aero/main/en/news/top.htm>

Travel and Tourism (TRA)

Overview

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Ukraine represents an intriguing market for the U.S. travel industry with over 46 million residents and a gradually developing middle class. The Office of Travel and Tourism Industries (OTTI) of U.S. Department of Commerce reports an impressive continuing growth in Ukrainian arrivals to the U.S. by over 25% annually since 2004, which the largest growth trend that any other European country demonstrates.

Ukraine offers good, though potentially high-risk trade and investment opportunities for companies involved in tourism infrastructure development. 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.

Best Prospects/Services

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- Hotel and resort development;
- Hotel and restaurant equipment;
- Individual travel management in the United States (New York, Las Vegas, Miami, Orlando, Los Angeles, Chicago)

Opportunities

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- 18 five-star, over 40 four-star, and more than 100 three-star hotels required for the Euro-2012 Cup in six cities – Kyiv, Lviv, Donetsk, Dnipropetrovsk, Kharkiv, and Odessa;
- Brand new tourism infrastructure required along the major intercity highways (Lviv-Kyiv, Kyiv-Odessa, Kyiv-Kharkiv, Kharkiv-Dnipropetrovsk);
- International ski resort development in the Ukrainian part of Carpathian Mountains
- Resort development on the Black Sea Coast

Resources

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UITT (Ukraine International Travel & Tourism), held annually during the last week of March: http://www.uitt-kiev.com/index_eng.htm
Crimea International Travel Fair, held annually during the first week of March in Yalta, Crimea: <http://www.expo-crimea.com/kkt08.htm>
U.S. tour operators can meet major Ukrainian buyers at the International PowWow: <http://www.powwowonline.com>

Retail

Overview

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AT Kearney ranks Ukraine in the top-five world's most attractive retail markets for the fourth consecutive year.

In 2007 the official retail market grew by 28.8% yoy to UAH 318.7 billion (approx US\$ 63 billion). Ukraine demonstrates the strongest growth among CEE peers, approaching Hungary and the Czech Republic in gross terms; however, per capita spending still remains far below CEE average. Kyiv is the principal retail market accounting for over 15% of the total retail trade nationwide. Market experts believe the actual size of the retail market in Ukraine, including the shadow economy, is over \$90 billion.

Ukraine has an increasingly sophisticated retail sector, most highly developed in Kyiv and other major cities. Retail superstore chains are dominated by local retail groups. Located in major cities, the local chains specialize in food or consumer electronics. Other consumer goods are sold mainly through specialized retail outlets or open-air markets.

Best Prospects/Services

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- Supermarket/grocery store equipment: cash registers, conveyors, bar-coding machines, scanners, ATMs, security systems, refrigerators, freezers, etc.
- In-house food processing and packaging equipment
- POSM technology and equipment
- Retail financing services
- Security solutions
- Cargo handling equipment for supermarkets and warehouses
- Personnel training

Opportunities

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- Leading Ukrainian retail companies Garantia Trade (Fourchette TM), VK Group (Velyka Kyshenya), and Fozzy Group plan IPOs in 2008;
- Local chains seeking foreign partnerships to develop and remain competitive.

Resources

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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/>

AT Kearney: <http://www.atkearney.com>

Electric Power System (ELP)

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Ukraine's market for electric power equipment has excellent sales potential for U.S. companies. We estimate this market to be \$2.2 billion in size and growing at about 10% per year. Ukraine's 2030 Energy Reform Plan, released in 2005, calls for a 36% decrease in natural gas use by 2030 and a doubling of Ukraine's reliance on coal and nuclear energy sources. Major opportunities include modernization of Ukraine's outdated and highly power-consuming factories, introduction of energy efficiency technologies, possible refurbishing of nuclear power plants, possible construction of new nuclear plants, and development of alternative energy (wind, solar, waste, ethanol, biodiesel, biomass). Market obstacles include troublesome customs, licensing, and certification procedures, and the lack of "green rates" for alternative energy.

48% of Ukraine's power generation comes from nuclear power plants, 45% from thermal coal/gas-fired power plants, and small amounts from hydro and co-generation. The nuclear sub-sector is state-owned and still highly dependent on Russia for nuclear fuel and essential equipment. Ukraine's thermal power generation sub-sector is mostly state-controlled, with outdated equipment and lack of funding for upgrades. The sole private, thermal power generating company, Vostokenergo, is upgrading its three coal-fired power plants. The power distribution system is 30% privately-owned. The government is planning to privatize the state-owned 25% share stakes in six power distribution companies in 2008.

The major competitors to the U.S. in this market are Germany (Siemens, Bosch, Raychem) and France (Alstom, Schneider Electric, Legrand, Framatome). Major U.S. companies working in Ukraine's power sector include: AES – electric power distribution (owns and operates Kyivoblenergo and Rivneoblenergo regional power distribution companies), Emerson Process Management, Honeywell, Westinghouse, Holtec, GE International, and American Power Systems. Ukrainian manufacturers supply turbines, generators, transformers, and electric cable at a very competitive price but generally lower efficiency and lifetime.

Best Prospects/Services

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- High-voltage and energy saving technologies
- Technology, equipment and software for power distribution and transmission
- Equipment for thermal power plants, process instrumentation and controls
- Heating equipment and auxiliaries
- Electrical motors for feeding pumps, portal cranes and conveyor belts
- Technologies for alternative/renewable power

Opportunities

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Nuclear projects:

- Central Spent Nuclear Fuel Storage facility at the Chornobyl site (total project value \$150 million, and long-term extended business is over \$1 billion)

- Chernobyl Shelter Implementation Plan (SIP) and New Safe Confinement Construction Project (NSCCP). (Over \$ 450 million)
- Announced plans to construct additional nuclear power plants
- Khmelnytsky Unit 2 and Rivne Unit 4 Post Start-up Safety and Modernization Program (EUR 34.8 million loan from EBRD)

Hydropower Rehabilitation Project (total cost \$374.5 million, including World Bank loan \$106 million)

Energy Efficiency projects:

- EBRD loan of EUR 16.5 million to UkrESCO state-owned energy service company
- EBRD framework facility of EUR 100 million in credit lines to participating Ukrainian banks for lending to companies for industrial energy efficiency and renewable energy projects
- Steel industry energy efficiency projects (\$1 billion in EBRD financing)
- Energy efficiency feasibility study grants (USAID, \$1 million)

Municipal heating modernization projects:

- Dnipropetrovsk (EBRD loan, total project cost EUR 17 million)
- Kharkiv (EBRD loan, total project cost EUR 19 million)
- Vinnytsia (EBRD loan, total project cost EUR 12.9 million).
- Kyiv Public Building Energy Efficiency Project (\$30 million)
- Odessa High Voltage Grid Project (EBRD loan of EUR 28.4 million)

Resources

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Ministry of Fuels and Energy of Ukraine: <http://mpe.kmu.gov.ua>

Ukrenergo National Energy Company: <http://www.ukrenergo.energy.gov.ua>

Energoatom National Nuclear Power Generating Company:

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

INEKO Energy Investment Company - power sector information:

<http://www.imepower.com>

Energobusiness Magazine - energy sector news, statistics and facts:

<http://www.e-b.com.ua>

Oil and Gas Field Machinery (OGM)

Overview

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Ukraine's market for oil and gas equipment has strong sales potential for U.S. companies. We estimate this market is \$1.4 billion in size and growing at about 4% per year. Interest in local oil and gas production is on the rise due to increasing global energy prices. Opportunities include: modernizing Ukraine's outdated gas transport and distribution system; offshore oil & gas production development in the Black Sea; expanding onshore oil & gas production, particularly in Sumy, Poltava, and Kharkiv regions; and coal mine/coal bed methane recovery. Market obstacles include troublesome customs, licensing, and certification procedures, as well as the reluctance of state-owned petroleum companies to partner with international companies.

Three Ukrainian regions contain petroleum resources: the Carpathian region in the west, the Dnipro-Donetsk region in the east, and the Black Sea and Crimea region in the south. Ukraine's hydrocarbon resources are estimated at 7-8 billion tons of fuel equivalent. Average annual oil and gas production amounts to 20 billion cubic meters of natural gas and 4 million tons of crude oil, and fulfills 26% of the domestic demand for natural gas and 14% of that for crude oil. Ukraine is believed to have the world's tenth largest coal-bed methane reserves, which by conservative estimates are 1.7 billion cubic meters. Ukraine has substantial offshore natural gas and crude oil reserves, but lacks 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, their average utilization is still under 60% and several of the refineries would require significant investment to operate competitively.

The major competitors on this market are Germany (Auma, Bardenhagen, Dungs, Friatec, Krohne, Persta, Rothenberger, Siemens, Sick Maihak), the Netherlands (Akzo Nobel, BJ Service, Rosen), and to some extent Poland and Russia. Major U.S. companies include: GE International (GE Power Controls, GE/Nuovo Pignone), Honeywell, Emerson Process Management, Exxon-Mobil, Marathon, Vanco, and Chevron-Texaco. Ukrainian manufacturers supply pipes, valves & fittings, turbines, and generators at very competitive prices.

Best Prospects/Services

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- Gas production and storage technology; gas transport infrastructure equipment
- Pumping equipment (to produce below 6000 feet)
- Stimulating technologies (acid stimulations, hydraulic fracturing)
- High-efficiency oil and gas exploration and drilling equipment and technologies, and drilling technology for offshore projects deeper than 200 feet
- Equipment for atmospheric-vacuum oil refining; industrial automation and controls
- Petrol station equipment

Opportunities

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- Offshore Oil & Gas Exploration & Extraction

- Refinery Rehabilitation & Upgrade
- Gas Transit Pipeline Development/Upgrade
- Coal Bed Methane (CBM) Development
- Petrol and LPG Stations

Resources

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Ministry of Fuel and Energy of Ukraine: <http://mpe.kmu.gov.ua>

Naftogaz Ukrainy National JCS: <http://www.naftogaz.com/www/2/nakweben.nsf/>

Ukrtransgaz Subsidiary Company: <http://www.ukrtransgas.naftogaz.com>

Ukrtransnafta National Joint-Stock Company: <http://www.ukrtransnafta.com>

Ukrnafta Open Joint-Stock Company: <http://www.ukrnafta.com>

Chornomornaftogaz State Joint-Stock Company: <http://http://www.blackseagas.com/ru/>

Geoinform State Scientific & Production Enterprise: <http://www.geoinf.kiev.ua>

Energobusiness magazine - energy sector news, statistics and facts:

<http://www.e-b.com.ua>

Nafta i Gaz (Oil and Gas) Magazine: <http://www.oil-gas.com.ua>

Ukrainian Petroleum Consultants (UPECO): <http://www.upeco.com>

Psychea Analytic Center: information on oil & gas market: <http://www.ukroil.com.ua>

Ukraine is a country of vast agricultural potential with a population of about 47 million. In area, Ukraine is the second largest country in Europe after Russia. Nearly 95% 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 but has rebounded significantly 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 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 growing 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, beef, seafood, pet food, wine, snack food, livestock genetics, and seeds for planting.

POULTRY MEAT.

The majority of legal poultry imports entered Ukraine through the "free economic zones" (FEZs) because the processors located in these areas were able to legally avoid exorbitantly high and prohibitive import tariffs. Many of these processors were granted these tax privileges by Ukraine's Business Court. In December 2007, the government of Ukraine once again eliminated these tax privileges. The importers will stop importing poultry until WTO accession which is expected in July or August 2008. At that time, the import duty rate will be reduced significantly.

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 by 2008 and pressure to import (both legally and illegally) leg quarters and poultry cuts will persist. Poultry remains one of the best prospect items despite the current barriers.

PORK AND BEEF

In March 2006, the United States and Ukraine negotiated and signed a new protocol that opened the Ukrainian market to U.S. beef and pork exports. In Ukraine, significant shortages of red meat for further processing persist. A prolonged meat crisis and extensive smuggling of meat products prompted the government to introduce import licensing in late 2005. This tool proved to be inefficient, but remain in place for 2008. As with frozen poultry, relatively high import

duties remain the major trade barrier for beef and pork. When a reasonable tariff rate will be 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 these inputs are currently in short supply.

Please refer to USDA's Food Safety and Inspection Service Export Library for the latest information on exporting meat products to Ukraine:
http://www.fsis.usda.gov/Regulations_&Policies/Ukraine_Requirements/index.asp

FROZEN SEAFOOD

As disposable incomes begin to rise, so does the demand for high quality seafood. In 2005, the import tariff for seafood was decreased significantly, creating new market opportunities for U.S. exporters to supply the traditional salmon and caviar market as well as new ones in the crustaceans and delicatessen seafood segments. Growing interest in Alaskan pink and chum salmon as well as for whiting and hake explains the almost 60% increase in the value of U.S. seafood product exports to Ukraine in 2007. Now the United States accounts for over 8.5% of the import market, and this 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 that demand will grow for other U.S. seafood products in 2008.

PET FOOD

With a dog population of 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 or home-made pet food. Most of the demand for pet food is concentrated in urban areas where people appreciate the benefits of prepared food. In 2007, U.S. pet food imports rose almost 4.5% in value. U.S. exporters have strong positions in the upper and middle market segments where their products compete mostly with Hungarian and French pet 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 2008. Emerging Ukrainian supermarket chains will be the major distribution outlets in 2008, driving specialized stores to the second position and open-air pet markets to third.

WINE

Despite numerous protective trade restrictions, wine imports to Ukraine are rising. Wine imports increased by approximately 60% in 2006 and 29% in 2007. The major supplier of wine to Ukraine is Moldova (which accounts for approximately 63% of imports in 2007), continued to increase their import volume for both 2006 and 2007. Moldova captures such a significant market share due to lower prices and compatible quality. The second largest supplier is Georgia, with exports

growing by approximately 36% in 2007. Ukrainian consumers have only recently become acquainted with wines from the United States. The share of U.S. wines is less than 1%. Prices for U.S. wines are high and in line with French and Italian brands. The relatively high import tariffs on grape wines, ranging from 2 to 3 EUR per liter, plus a 20% value-added tax prevent U.S. wines from capturing a strong position in the lower and middle market segments.

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 Ukrainian's 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. Nevertheless, U.S. almond imports captured almost 96% market share in 2007.

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. The large concentration of animals in private households versus big industrial enterprises has resulted in a significant worsening of the genetic potential of Ukrainian pigs and dairy cows. A good 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 to large agricultural companies with profitable dairy or hog operations. The market for lower quality genetics exists within the large household sector, but it is very price sensitive and U.S. exporters face fierce competition from domestic producers. In 2007, 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.

PLANTING SEEDS

Despite rigid variety registration requirements, Ukraine's market for imported planting seeds is constantly growing for sunflower seeds and corn. In 2006 and 2007 (January-November), sunflower seed imports increased 40% to \$28 million and 43% to \$40 million, respectively. Non-sweet corn increased approximately 15% to \$30 million and 46% to \$44 million, for the same time period. The market continues to provide promising opportunities for U.S. suppliers. According to official statistics, U.S. sunflower seed imports increased from \$5 million in 2005 to \$9 million in 2006, and to 11 million in 2007 (January-November). Non-sweet corn seeds increased from \$3 million in 2004 to \$10 million in 2005, but decreased slightly in 2006 to \$8.5 million and further decreased by 22% in 2007 (January-November) to \$6.6 million.

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. The demand for GMO soybeans is gradually increasing due to the increase of crushing capacities in Ukraine. There are many constraints in Ukraine's GMO import regulations which are supposed to be revised prior to WTO accession. To learn more about particular import requirements please contact the Foreign Agricultural Service Office in Ukraine at agkiev@usda.gov.

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Import Tariffs

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In January 2000, border checkpoints began collecting a new uniform customs duty, combining seven import fees - customs clearance, sanitary, veterinary, phytosanitary, radiation, ecological control, and 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 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. Import tariffs generally range from 2 to 50 percent. Excise taxes range from 5 to 300 percent. 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.

VAT is assessed at 20 percent on most goods. As the list of goods exempted from VAT changes frequently, businesses should contact a local tax expert for the most up-to-date list.

As Ukraine will join WTO in early 2008, import-export requirements will be changed to reflect WTO standards.

Trade Barriers

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Ukraine continues to maintain barriers to imports, including discriminatory fees and certification regimes. These barriers are being slowly removed as Ukraine undertakes WTO accession. Non-tariff barriers include non-transparent standards, cumbersome procedures for phytosanitary certification, and import licenses.

Over the past few years the government of Ukraine has on occasion temporarily restricted imports of U.S. agricultural products, allegedly for reasons of food safety.

Import Requirements and Documentation

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Despite some procedural improvements made by the Ukrainian Customs Office, 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.

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:

- Ministry of Agriculture, the State Chemical Commission (agricultural chemicals), and Ministry of Environmental Protection (if such substances are supplied in sprays);
- Ministry of Agriculture (seeds);
- Ministry of Health (pharmaceutical products, cosmetics, and hygiene products) and Ministry of Environmental Protection (if such substances are supplied in sprays);
- Ministry of Agriculture, Department of Veterinary Medicine (veterinary medicines);
- Ministry of Education and Science (matrix forms used in the manufacturing of audio production); and
- Ministry of Environmental Protection (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 importer/freight forwarder should have all documents ready for presentation to the Ukrainian customs authorities, including:

- 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 from the Ministry of Internal Affairs;
- If importing electronic radio and equipment and high-frequency devices, written permission from the State Telecommunications Committee; and
- If importing drugs, medical preparations, and sources of ionizing radiation, written permission from the Ministry of Health.

Because the list of the documents to be presented to customs authorities changes frequently, businesses should contact a local customs expert for the most up-to-date list.

As Ukraine will join WTO in early 2008, import-export requirements will be changed to reflect WTO standards.

U.S. Export Controls

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The Department of Commerce, Bureau of Industry and security (BIS) -- see <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 of 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 \(CCL\)](#) -- see [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

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/>

Temporary Entry

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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. Demonstration samples to be returned outside Ukraine are exempt from customs fees.

Labeling and Marking Requirements

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All imported food products should carry labels in the Ukrainian language. The labels should include information about the manufacturer, product ingredients, and expiration dates. 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 can be obtained from a 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, and certain pharmaceutical and communications products. U.S. companies wishing to import these goods should contact the relevant Ukrainian government ministry responsible for issuing licenses.

Customs Regulations and Contact Information

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State Customs Service of Ukraine
11 Degtyarivska St., Kyiv 04119 Ukraine
Tel: (044) 247-26-06, 274-26-63
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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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 has 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.

Standards Organizations

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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 2006, DerzhSpozhyvStandard had a network of 115 accredited product certifying bodies, including 53 accredited certifying bodies for quality management systems, as well as about 780 testing laboratories throughout Ukraine. 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. DerzhSpozhyvStandard'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 -- see <http://www.dssu.gov.ua/>.

Conformity Assessment

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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.

Product Certification

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Importers can apply for three types of technical standard 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.

In addition, 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 laws “On Quality and Safety of Food Products and Food Raw Materials,” “On Veterinary Medicine,” “On Plant Quarantine,” and others, to bring Ukrainian legislation in compliance with requirements of the WTO Agreement On Sanitary and Phytosanitary Measures, passed in 2005 and 2006.

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; and
- A certificate of origin (manufacturing).

Because the list of documents issued outside Ukraine confirming a product's conformity to specific requirements changes frequently, businesses should contact DerzhSpozhyvStandard for the most up-to-date list.

DerzhSpozhyvStandard has adopted ISO-9000 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 ISO-9000 standard certificate doesn't prevent the importer from certifying individual products.

As Ukraine will join WTO in early 2008, import-export requirements will be changed to reflect WTO standards.

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.

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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Product labeling should indicate compliance with local standards. Detailed information on labeling requirements can be obtained from the relevant Ukrainian Ministries and agencies.

Trade Agreements

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World Trade Organization (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 United States and Ukraine signed a bilateral agreement on market access as part of Ukraine's WTO accession negotiations. The WTO General Council approved Ukraine's accession to the WTO on February 5, 2008; Ukraine will become a WTO member after the Ukrainian parliament ratifies the accession.

Ukraine has signed free trade agreements with all of the former Soviet republics except Tajikistan. Ukraine 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 and the EU will start negotiations on a free trade agreement in mid-February 2008. 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 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 WTO.

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>

Ukrstandard-Usa, official agent of Ukrmetrteststandard in the USA:

http://www.ukrcsm.kiev.ua/englcat/index_eng.htm

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Openness to Foreign Investment

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GOVERNMENT'S ATTITUDE TOWARDS FOREIGN INVESTMENT

Since taking office in January 2005, President Viktor Yushchenko has made improving the investment climate one of his top economic policy goals. While progress has not been as swift as some may have hoped, almost all of Ukraine's major political forces remain committed to improving the business and investment climate. There have been several positive steps for U.S.-Ukraine trade and investment relations over the past several years. Both the United States and the European Union granted Ukraine market economy status, in February 2006 and December 2005, respectively. In March 2006 the United States terminated the application of the Jackson-Vanik amendment to the Trade Act of 1974 to Ukraine, providing Ukraine permanent normal trade relations status.

After eight years of decline following independence, the Ukrainian economy has been growing steadily since 1999, with real GDP growth at about 7% in 2007. Over the past few years, Ukraine has taken steps to liberalize its markets, reduce regulation, eliminate most licensing requirements, eliminate most restrictions on foreign exchange, and begin 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 (UAH), has been stable against the U.S. dollar for over six years. The inflation rate remains high, however, and was 16.6% in 2007. Ukraine remains in need of substantial reforms in order 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 is in the process of negotiating terms of accession to the World Trade Organization (WTO). Ukraine made significant progress during 2007 in adopting legislation and regulations needed for compliance with WTO requirements, enacting some 11 WTO-related laws in May and adding to its steady progress in this area during the previous three years. Ukraine also made a major breakthrough in signing a bilateral market access agreement with Kyrgyzstan, the last such agreement outstanding. Ukraine had signed a bilateral agreement with the United States in March 2006. Accession to the WTO remains a priority for the government and now appears imminent.

Foreign investors continued to express little confidence in the Ukrainian court system. In a noticeable number of cases, predatory minority shareholders have been able to procure dubious court decisions in an effort to wrest control of companies away from the majority investors. Some researchers claim that as many as 2,500 Ukrainian enterprises have suffered so-called corporate hijacking attempts in the last several years. Ukrainian courts have a long record of striking down or ignoring contractual provisions that assign legal responsibility for dispute resolution to a foreign court or arbitrator.

Many 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 favored political or business interests. Arrears in the payment of VAT refunds to exporters have also been a serious problem. The GOU decreased the pace of VAT refunds beginning in August 2006, reimbursing only 76 percent of verified claims, down from 87 percent refunded in 2005. VAT refund problems continued in 2007, leading to calls for an overhaul of the VAT reimbursement mechanism. Delays in reimbursements can create opportunities for tax officials to demand kickbacks in return for quicker processing of rebates. Numerous exporting companies, both Ukrainian and foreign, claim that STA officials openly expect bribes between 10 and 30 percent of outstanding VAT refunds in order to process reimbursement. Currently, the process for obtaining a refund of VAT payments can take from 3 to 18 months for foreign companies. Increasingly, the delays in reimbursement are becoming an important cost factor for many foreign companies and are seriously affecting the profitability of planned investments.

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 broadcasting and weapons manufacturing.

Both a new Civil Code and a competing new Commercial Code went into effect on January 1, 2004. Lawyers and judges continue to grapple with how to implement the two laws, whose approaches to the regulation of business activities are contradictory. The Commercial Code has a number of provisions considered to be incompatible with market economics, and most experts believe it should be eliminated entirely.

In October 2001, the Ukrainian Parliament passed a Land Code. It provides for private ownership of land, facilitating the privatization of land for agricultural purposes, but also provides for a moratorium on agricultural land sales. This moratorium has been extended until the GOU succeeds in adopting new legislation necessary to open the land market. This legislation has been drafted, but prospects for its enactment are currently unclear. The moratorium blocks private investors from purchasing some of the 33

million hectares of agricultural land in Ukraine and constitutes a serious obstacle to the development of the sector. The Land Code also prohibits foreign ownership of farmland.

A new Customs Code that went into effect in January 2004, along with December 2005 amendments to the Customs Code and Single Customs Tariff, brought Ukraine's customs regime into near-complete compliance with WTO rules. Problems, particularly in the area of customs valuation, remain, however, and industry representatives have expressed concern with current draft amendments meant to fix the Customs Code. Cabinet of Ministers Resolution #269 from 2005 introduced preliminary documentary control at customs checkpoints in order to simplify customs clearance of goods entering Ukraine, and to reduce the wait time for importers. Implementation of this resolution has been imperfect, however, as imported goods entering Ukraine often still must be "cleared" by a number of state bodies, some of which do not operate 24 hours a day, causing extended delays. Corruption also remains a serious problem. President Yushchenko pushed in November 2007 for the dismissal of several high-level Customs officials and for the creation of a new body within the State Security Service to combat smuggling. Prime Minister Yuliya Tymoshenko announced in January 2008 that her government would restart an anti-smuggling campaign that had had some success back in 2005.

Under the 2001 Law "On the Customs Tariff of Ukraine," only Parliament can introduce or change tariffs. The import tariff system of Ukraine has 21 sections, encompasses 97 groups of goods, and lists over 11,000 import duty rates. In 2005, Parliament passed amendments to the Customs Code to decrease tariff rates in an effort to meet WTO accession requirements. The average applied tariff rate for all goods is now 6.5 percent, and 61.5 percent of the total tariff lines face *ad valorem* rates of five percent or less. For agricultural goods, the average applied rate is 13.8 percent (down from 19.7 percent) and for industrial goods the average applied rate is 4.4 percent (down from 8.3 percent).

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. Those violating fair competition rules may be fined up to 10% of the prior year's turnover. If unfairly gained profit exceeds 10% of income, up to three times the normal penalty can be collected. The applicant, defendant, or a third party may appeal a Committee decision, but the appeal must be filed within two months after the decision is taken.

PRIVATIZATION AND FOREIGN PARTICIPATION

The State Property Fund oversees the privatization process in Ukraine. Privatization rules generally apply to both foreign and domestic investors, and, in theory, a relatively level playing field exists. Observers claim, however, that a common abuse of privatization laws is the adjustment of the terms of a privatization contest to fit the characteristics of a certain, pre-selected bidder. Few major, new privatizations have been conducted since the privatization rush of 2004. As of September 2007, revenues from privatization were only 15.4 percent (\$320 million) of the fiscal year's budget target. In 2005, the GOU revoked the privatization of the Krivorizhstal steel factory, which had been sold to a group of domestic investors for \$800 million, and subsequently sold it in a fair and transparent tender to Mittal Steel for \$4.8 billion. Since then, the GOU has

taken no further steps to reverse previous privatizations, although Prime Minister Tymoshenko has stated she expects the government may stage re-privatizations in a handful of cases where the courts have overturned privatizations.

The few privatizations that took place in 2007 were often marked by controversy. In March, the State Property Fund sold a majority share in Luganskteplovoy (a Ukrainian locomotive manufacturer) to Russian-owned CJSC Bryansk Machine Building Plant. Only two bidders (both related parties) were able to meet the tender requirements as set by the State Property Fund, and the Fund also appeared to have violated rules governing the announcement of the tender, making it impossible for potential investors to learn of the tender in time to submit bids. The courts subsequently ruled that the sale was in fact illegal.

In August, the state-owned electricity generation company Dniproenergo increased its capital by 52 percent, allowing the Donbas Fuel and Energy Company (DTEK), owned by a Member of Parliament in the then-ruling coalition, to purchase the fresh capital and causing the state's share in the company to shrink from 76 percent to 50 percent plus one share. The transfer was conducted as a controversial debt-for-shares swap, whereby DTEK acquired the shares in exchange for covering a debt owed by Dniproenergo to coal suppliers. Some experts claimed that DTEK acquired the shares in Dniproenergo for only 30-40 percent of the market value. A court of first instance ruled the sale to be illegal, but an appeal is pending.

Ukrainian law authorizes the government to set limits on foreign participation in "strategically important areas," although the wording is vague and rarely used in practice. Some strategically important companies, including natural monopolies, producers of military equipment, and some fuel and energy companies, are barred from privatization and foreign ownership. A company's "strategic status" can be lifted by Parliament, on the recommendation of the Cabinet of Ministers, and foreign entities would then be allowed to participate in its privatization. Foreign shares of TV and radio broadcasting and publishing companies are restricted, and can generally not exceed 30%. In January, 2006, Parliament adopted a new law "On Television and Radio Broadcasting" that eliminated restrictions on the share of foreign capital in the charter funds of television and radio broadcasting companies. Foreigners are prohibited from founding TV or radio stations, however.

PROCUREMENT

Ukraine is not currently a signatory to the WTO Agreement on Government Procurement (GPA), but will become an observer to the GPA upon WTO accession, and has promised to then begin negotiations to accede to the GPA.

Most experts agree that recent amendments to the law "On Procurement of Goods, Works and Services Using State Funds" have been a step backwards in terms of bringing Ukraine's procurement system into compliance with international norms. A recent study on Ukraine by the Atlantic Council of the United States concluded that "government procurement is one of the most corrupt spheres of state activity." Amendments to the procurement law passed in March 2006 transferred the authority to coordinate government procurement from the Ministry of Economy to the Anti-Monopoly Committee of Ukraine, a body with no particular expertise in regulating public procurement, and one that has struggled to secure compliance with its own rulings. The

amendments scattered policy and oversight functions across several bodies, including the Anti-Monopoly Committee, the Accounting Chamber of Ukraine (reporting to Parliament), the State Control and Audit Unit (under the Ministry of Finance), and the Tender Chamber of Ukraine. The amendments have been criticized for creating an overlap in authority of various regulatory agencies and decreasing the transparency of the system.

The 2006 amendments granted the Tender Chamber of Ukraine, purportedly a non-governmental organization for monitoring the procurement process, a number of key operational functions that are inherently governmental. The Tender Chamber has exclusive authority to maintain a catalog of bidders, consider claims of tender participants, and issue conclusions. It also maintains a UAH 7000 (\$1400) obligatory fee for bidders that want to be registered in the catalogue, in conflict with the international practice of free listing for all interested parties. The Tender Chamber has faced widespread criticism, including from some of its former members, as contributing to the procurement system's corruption and lack of transparency.

The March 2006 amendments also introduced special security requirements for websites in order to be eligible for tender announcements. Only one organization, the European Consulting Agency, a Ukrainian private enterprise with links to the Tender Chamber, has been allowed to operate a website announcing tenders. Several observers have charged that this intermediary fosters corruption in the process and decreases transparency. In addition, the March 2006 amendments introduced burdensome and lengthy procurement procedures, and required all tender proposals to be secured by collateral, limiting the number of tender participants and increasing the cost of participation. For some procurements, the Tender Chamber assesses fees at four percent of the value of the procurement, which in many cases makes the fees extremely high by international norms.

December 2006 amendments to the law created a legion of special public sectors, such as defense, postal and telecommunications services, and railways, for which procurement rules do not apply for all tenders. Yet the December 2006 amendments also required most state-owned and municipal companies to follow state procurement procedures, resulting in some disruptions, most notably for procurement done by municipal hospitals and the military. Parliament attempted to amend the law again in June 2007 in order to exempt all state-owned enterprises from government procurement rules, but the President and the Kyiv Commercial Court blocked the amendment from taking effect.

All government procurement of goods and services valued at more than \$10,000 and works valued at more than \$80,000 must be procured through competitive tenders. Open international tenders must be used when procurement is financed by any entity outside of Ukraine. The Tender Chamber publishes information on government procurement in the "State Procurement Bulletin."

The procurement law does not restrict foreign enterprises from participating in government procurement, but in practice foreign companies are rarely able to compete on an equal footing. Foreign companies generally win only a tiny fraction of the total tenders (0.01 percent during the first nine months of 2006, with no more recent statistics available). Among the problems faced by foreign firms are: (1) the lack of public notice of tender rules and requirements; (2) covert preferences in tender awards; (3) subjecting

awards to conditions that were not part of the original tender requirements; and (4) non-effective grievance and dispute resolution mechanisms, which often allow a losing bidder to block the tender after the contract has been awarded. March 2007 amendments to the law did eliminate preferential provisions in favor of domestic bidders on tenders below certain values. Some regulations still serve to exclude foreign bidders, however. For example, there is a practice in health sector procurement of only accepting bids from Ukrainian resellers or Ukrainian producers of pharmaceuticals.

The 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. The development of PSAs was tested after the GOU awarded the U.S. company Vanco a tender for the Prikercheskiy block for offshore oil exploration in the Black Sea in April, 2006. Vanco and the GOU signed Ukraine's first-ever production sharing agreement in October 2007. It is unclear, however, if the GOU is willing to pursue additional PSAs for offshore exploration at this time, especially since additional PSA legislation is still required.

Conversion and Transfer Policies

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RESTRICTIONS ON CONVERTING/TRANSFERRING FUNDS

The 1996 Law "On Foreign Investment" guarantees 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. In 2007, the hryvnia traded against the U.S. dollar at or near UAH 5.05 to the dollar.

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 \$50,000 must be approved by the NBU. The NBU also charges a fee to review the transaction. In view of increased hard currency inflows, the NBU in 2005 canceled its 1998 surrender requirement that exporters convert half of their hard currency revenues into hryvnias. As of January 2008, foreign currency derived from export sales has to be repatriated within 180 days. 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. The Law on the 2008 Budget lowered the tax from 1.0% to 0.5%.

Foreign investors have complained of cumbersome NBU regulations (2005 Resolutions 280 and 281) requiring them to open local accounts in Ukrainian banks and to use the services of Ukrainian brokers in order to make investments in Ukraine. Past direct investors seeking to liquidate and repatriate their investments face stringent documentary requirements, though the NBU has stated its willingness to waive requirements if documents from the original transactions are no longer available. On

December 4, 2007, the NBU issued a new regulation requiring nonresident investors who wish to convert dividends or divestment income into foreign currency to provide proof of the initial foreign investment, making such operations more difficult.

Investors convert their earnings into foreign currency through commercial banks, which purchase foreign currency on the electronic inter-bank currency market. Commercial banks may trade foreign currency in electronic form with other banks through participation in electronic inter-bank currency market, regulated and operated by the NBU. 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 NBU cancelled the requirement that companies obtain State Tax Administration permission to purchase hard currency. Commercial banks must announce their clients' intentions to sell on inter-bank currency market if the transactions exceeded \$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. Expropriation of property is rare. 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.

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, and 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). Currently, there is no single point of contact in the Ukrainian government tasked to help resolve business and investment disputes involving foreign companies, although the Ukrainian Center for Foreign Investment Promotion, a state body commonly known as InvestUkraine (<http://www.investukraine.org>), has pledged to take on this role. Most U.S. businesses have little confidence in Ukrainian courts. Commercial contracts may permit the parties to use international arbitration or specified foreign courts to settle disputes. Though

Ukrainian legislation recognizes international arbitration decisions, in practice such decisions can be 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 rent seeking.

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. There is also a separate system of Administrative courts, and the Supreme Administrative Court started its work in 2005. The Administrative Procedural Code, which entered into force on September 1, 2005, governs the organization and work of the administrative courts.

ENFORCEMENT OF RIGHTS

Investors criticize Ukraine's legal system for its inefficiency, burdensome procedures, unpredictability, corruption, and susceptibility to political interference. Even when they obtain favorable decisions, investors claim the decisions are often not 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.

The procedure for recognizing and enforcing foreign court decisions is regulated by Section 8 of the Code of Civil Court Procedures of Ukraine. 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 parliament, or based on a 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." The Law "On Implementing Decisions and Applying Practices of the European Court of Human Rights" entered into force on March 30, 2006. Along with a subsequent Cabinet of Ministers implementing Resolution, the law obligates the Ministry of Justice to ensure implementation of the Court's decisions.

COMMERCIAL LAW

A new Civil Code and a competing Commercial Code both went into effect on January 1, 2004. Lawyers and judges have since grappled with how to implement the two conflicting laws. Despite heavy criticism of the Commercial Code by businessmen and GOU officials, Parliament has not yet taken action to amend or annul it. The Civil Code ensures protection of the rights of private property, of engaging in contracts, and of entrepreneurial activity. It provides a unified framework for economic regulations.

The Civil Code is generally market-oriented and modern, but the Commercial Code is often contrary to market economy principles and directly contradicts provisions of the Civil Code in numerous instances. The Commercial Code aims to preserve a privileged position for the public sector of the economy and allows for governmental interference in private commercial relations. Further, in both codes gaps in regulation exist. The existence of these two codes creates uncertainty in planning and structuring transactions, and leaves questions surrounding transactions unanswered. Problems arising from these two codes also surface in the resolution of disputes, as courts are not able to resolve the conflicting provisions of the codes, or are not able to fill in the gaps in regulation that arise as a result of the missing provisions in the codes. Finally, other commercial laws have not been harmonized with these codes.

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.

Most observers believe the bankruptcy laws must be amended to provide more protection for creditors. Notice provisions, protections for the rights of minority shareholders, and procedures for valuation and the sale of assets to satisfy liabilities are undeveloped.

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 improve 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 May 2007, Parliament passed the latest version of this draft law in the first reading, but a protracted political crisis prevented the law from moving forward.

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. One major investment dispute involving a U.S. company was resolved in May 2006 through a combination of direct consultations with the Ukrainian government and international arbitration by 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 pledged to eliminate measures that conflict with the WTO Agreement on Trade-Related Investment Measures (TRIMs) in the automobile industry and other sectors in the context of its accession efforts

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 during a 180 day period. 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.

Ukrainian law requires that foreign residents of Ukraine register with local authorities. American travelers entering Ukraine under the visa-free regime do not have to register any stays of 90 days or less. Travelers entering Ukraine on a visa must register after six months' stay in Ukraine. Registration is done at the local offices of the Department of Citizenship, Immigration, and Registration.

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. Cabinet of Ministers Resolution #917 from July 11, 2007 introduced some changes to the rules surrounding work permits, although implementation of this new regulation has been unclear and inconsistent.

Resolution #917 states that, if a foreigner intends to travel to Ukraine for employment, the employer in Ukraine must obtain a work permit from the Ministry of Labor. The foreigner should then apply at a Ukrainian Consulate for an IM-1 visa. After the applicant enters Ukraine, he/she should submit his/her passport with the IM-1 visa and work permit to the local Department of Citizenship, Immigration, and Registration, which will provide a passport stamp allowing the person to leave and re-enter Ukraine. For stays longer than one year, the employer must apply to the Ministry of Labor for an extension of the work permit. If a foreigner enters Ukraine without a visa, the employer must apply to the Ministry of Labor for a work permit, and, upon approval, the employee must register with the Department of Citizenship, Immigration, and Registration. Spouses/family members of IM-1 visa holders are not automatically entitled to IM-1 status. However, if they intend to stay in Ukraine for more than 90 days, they must have a visa - most likely a P-1 (private) visa. When the IM-1 visa holder registers his/her work permit at the Department of Citizenship, Immigration, and Registration, he/she should request the same status for family members. Family members will receive a different stamp (most likely a permit for temporary residence) to allow them to stay in Ukraine and travel in/out of the country just like the IM-1 visa holder.

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.

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. A moratorium on the sale of agricultural land remains in place, and the Land Code also restricts agricultural land purchases by any one legal

entity (Ukrainian citizen or Ukrainian-based business) to no more than 100 hectares until 2015. Efforts to cancel the moratorium on agricultural land sale in 2007 failed. The Land Code continues to prohibit foreigners from owning agricultural land directly. 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, as well as broad government/state rights to "influence" the land market. In 2003, Parliament adopted a new law on mortgages that allows the use of agricultural land as collateral and spells out foreclosure and eviction procedures.

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 several initiatives to develop a mortgage market, which have resulted in a strong increase in the number of mortgages and laid the legislative and administrative groundwork for a functioning mortgage market. Adoption of the Law "On Withholding Land Shares in Kind" in 2002 and the Law "On Mortgages" in 2003 was particularly important. The GOU created the State Mortgage Institution (SMI) in October 2004 with authorized capital of UAH 50 million (\$10 million) as a liquidity facility largely aimed at putting downward pressure on lending rates by allocating capital efficiently. The SMI began issuing corporate securities during the first quarter of 2007. The use of mortgages in Ukraine to secure ownership in property is growing – apartments, houses, office buildings, other types of buildings, and summer house (dacha) plots have secured mortgages. Development of the secondary mortgage market is underway -- enabled by passage of the Covered Bond Law in late 2005. To test the law, USAID assisted a local bank in the spring of 2007 to issue a pilot mortgage covered bond to demonstrate how residential mortgages can be traded as securities. The pilot issue identified a number of deficiencies in the law and resulted in a package of amendments now being considered by the government. Their passage is likely to result in rapid development of the secondary market and securitization of nearly \$10 billion in residential mortgages -- an increase of \$9.5 billion since the beginning of 2005. 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 (IPR)

The United States withdrew Ukraine's benefits under the Generalized System of Preferences (GSP) program in 2001 and imposed trade sanctions and elevated Ukraine

to the Special 301 Priority Watch List in 2002 as a result of Ukraine's failure to adequately protect intellectual property, particularly copyrighted music. The United States lifted sanctions in August 2005, after the Ukrainian government made significant improvements to IPR protection over a number of years, culminating in the passing of amendments to the Law "On Laser-Readable Disks" in July 2005. In January 2006, the United States reinstated GSP benefits for Ukraine and lowered Ukraine's designation under Special 301 from Priority Foreign Country to Priority Watch List. Also in January 2006, the GOU agreed to work with the U.S. Government and with U.S. and domestic industry to monitor the progress of future enforcement efforts through the IPR Enforcement Cooperation Group. This bilateral group has conducted a series of successful dialogues, meeting roughly once every four months. The GOU has also agreed to meet biannually with European Commission officials as part of an EU-Ukraine IP Dialogue. Despite these positive developments, Ukraine remains a trans-shipment point, storage location, and market for pirated and counterfeit goods produced in Russia and elsewhere.

Ukraine is an active member of the World Intellectual Property Organization and a signatory to a number of IPR-related international agreements and conventions. As part of its ongoing efforts to negotiate accession to the WTO, Ukraine has adopted a series of laws to bring its IPR regime into compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Parliament passed amendments to its Customs Code in November 2006 that provide customs officials the ability to use *ex officio* authority to seize suspected pirated or counterfeit goods. In May 2007, Parliament passed a law amending the Civil and Criminal Codes of Ukraine in order to provide for the seizure and destruction of IPR-infringing goods and equipment, in line with Article 46 of TRIPS.

Ukraine amended its Law "On Medicinal Drugs" in November 2006 to provide a five-year period for the protection of pharmaceutical test data that is submitted to government authorities to obtain marketing approval. In September 2007, the Ministry of Health issued a regulatory act to ensure implementation of this law and to clarify some procedures. Pharmaceutical industry representatives complain that implementation of the law remains a problem, however. Parliament also passed an amendment to the Law "On Pesticides and Agrochemicals" in November 2006 that provides a ten-year period of protection for agricultural chemicals. In September, the Cabinet of Ministers issued a regulation to abolish discriminatory fees on the testing and registration of plant varieties.

The State Department of Intellectual Property (SDIP) is responsible for the formulation and implementation of Ukraine's intellectual property policy. In order to improve 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. Amendments to the Criminal Code of Ukraine passed in February 2006 lowered thresholds, so that violations with smaller amounts of damage to rights holders can also be prosecuted as IPR infringement. As a result, prosecutions and convictions of IPR-related crimes have increased significantly in recent years. However, in many cases, the rights holder must actively engage with the Ministry of Internal Affairs or the State Customs Service to obtain enforcement. Judges too often dismiss cases for improper reasons, or hand down minimal sentences. Generally speaking, the number of judges trained in IPR law remains low.

Trademarked and copyrighted goods must be registered for a fee (\$400 for the first good for the first year) in Customs' rights holder database in order to be guaranteed protection. Generally low confidence in the Ukrainian judicial system has meant few enterprises have brought private lawsuits to protect intellectual property rights, although there was a landmark ruling in September 2007 by Ukraine's High Commercial Court against an illegal music download website. 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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BUREAUCRATIC REGULATORY PROCEDURES

The number of regulations, required certificates, and inspection regimes in Ukraine imposes a significant regulatory burden on private enterprise. While the time and costs related to business registration have been reduced, the GOU still requires enterprises to obtain numerous permits to conduct business. The Law "On Permits System in Economic Activity," which entered into force in January 2006, canceled more than half of the required permits and increased the number of locations for obtaining permits six fold. The government also tried to expand "One-stop Registration Shops" that allow new businesses to be registered within two to three days, instead of a month, as in the past. The World Bank "Doing Business" database rated Ukraine 109th in 2008 for ease in starting a business, down from 105th in 2007. "Doing Business 2008" estimates that on average it takes 27 days and \$152.10 (7.8% of GNI per capita) to open a business in Ukraine; OECD averages are 14.9 days and 5.1% of GNI per capita.

LICENSING

Ukraine applies both activity and import licensing regimes. The Law "On Licensing Certain Types of Economic Activities" of June 2000 (and amended on January 17, 2002) provides a list of activities subject to licensing. Licensing applies to nearly 60 economic activities and is meant for protection of human, animal or plant health, the environment, public morals, and 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. The list of goods covered by the licensing regime and the license terms are decided annually by the Cabinet of Ministers. In 2007 the list included 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, checks and securities, some goods that contain sensitive encryption technologies, and ozone-depleting substances. For some products an importer is required to receive prior approval, which may or may not be automatic, from the relevant administrative agency before receiving the necessary import license from the Ministry of Economy. For some goods, product certification is a prerequisite for an import license. Importers can certify the compliance of a foreign facility to Ukraine's technical regulations applied to imports. The U.S. distilled spirits industry reports that this option usually involves a burdensome visit and costly inspection by Ukrainian government officials. If approved, however, the supplier receives a certificate of conformity valid for two to three years, which avoids the burden

of certifying each shipment and subjecting goods to mandatory laboratory tests upon arrival in Ukraine.

RULEMAKING/INSPECTIONS

Proposed draft laws and regulations are available on Parliament's 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. Product standards are compulsory for a larger percentage of goods and services than in most of the world. According to a 2007 survey by the International Finance Corporation, over 60% of Ukrainian businesses have to comply with compulsory standards and/or technical specifications.

DerzhSpozhyvStandard is responsible simultaneously for development and approval of standards, issuing certificates, conducting inspections of producers, and ensuring market surveillance and protection of consumer rights, which some experts consider a conflict of interest. DerzhSpozhyvStandard has a network of 114 accredited product certifying bodies, including 60 accredited certifying bodies for quality management systems, as well as about 780 testing laboratories throughout Ukraine, 170 of which are accredited by the National Accreditation Agency as complying with international standards. Depending on the type of product, testing and applicable certification scheme, the certification process can take from three days to one month. Companies seeking testing should contact DerzhSpozhyvStandard.

Importers can apply for three types of technical standard 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); and a certificate for five years, which requires inspection of production facilities.

Some certification agencies do much of their regulatory work with little or no coordination with other Ukrainian bodies performing similar tests. Many products require multiple certificates from different agencies, with local, regional, and municipal authorities often requesting additional documentation beyond that required by central bodies. Experts allege that government officials responsible for issuing licenses often require businesses

to provide documents that are not mandatory, deliberately conceal information in order to confuse a potential licensee, or delay issuing documents in order to induce licensees to offer a bribe.

These issues are being addressed during Ukraine's WTO accession negotiations, and, as recently as September 2007, Ukraine has reduced the number of products subject to mandatory certification. Upon WTO accession, Ukraine will be obliged to apply such mandatory requirements only in conformity with WTO provisions on technical regulations (i.e., only in defense of human, animal, and plant health and safety), and only based on sound science. A May 2007 amendment to the Law "On Standards, Technical Regulations and Conformity Assessment Procedures" helped to guarantee precedence of international over regional standards and introduced provisions related to conformity assessment recognition, although further amendments may be needed to ensure that Ukrainian authorities will accept the results of conformity assessment procedures performed in the United States. Ukraine's National Accreditation Agency is taking steps to become a member of the International Laboratory Accreditation Cooperation (ILAC), anticipated in 2009. Once an ILAC member, Ukraine should significantly increase the acceptance of test results of laboratories accredited with, and notified by, ILAC member bodies.

In addition, Ukraine has, in the past, applied a range of sanitary and phytosanitary (SPS) measures that restrict imports of a number of U.S. agricultural products, among them, pork, beef, and poultry. Ukraine's certification and approval process is lengthy, duplicative, and expensive. Ukraine maintains a complex and non-transparent system for overseeing human and animal health measures that involves overlapping authority by the Veterinary Service, Sanitary Service, and DerzhSpozhyvStandard. Over the past few years, however, Ukraine has passed amendments to several laws and regulations, most importantly to the Law "On Veterinary Medicine" and the Law "Quality and Safety of Food Products and Food Raw Materials," to bring its legislative and regulatory framework into compliance with requirements of the WTO SPS Agreement.

Ukraine's biotechnology approval process has been inoperative for some time. This has resulted in unpredictable sales conditions for corn products, soybeans, and meal. The United States is working with Ukraine to establish procedures regarding biotechnology that are based on modern, science-based risk assessment principles and guidelines, including those of the WTO SPS and Technical Barriers to Trade (TBT) Agreements, the Codex Alimentarius, and the International Plant Protection Convention (IPPC). In May 2007, Parliament passed a new law establishing a framework for the creation, testing, and use of products of biotechnology. The government still needs to issue implementing regulations for the law to take practical effect, however.

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.

BANKING

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

Ukraine's banking sector is modernizing and growing rapidly, and is playing a growing role in Ukraine's economy. Bank capital is about 10% of GDP. Total bank assets in Ukraine are about UAH 510 billion, with total loan assets of UAH 370 billion (as of October 2007). Money lending and deposits grew at a fast 56% and 36% respectively in January-October, 2007. Bank deposits account for 40% of GDP. Interest rates continued to decline from 15.0% in 2006 to 13.8% in 2007, making credit more accessible. There are 154 banks operating in Ukraine, but a handful of banks dominate the market. The top fifteen banks control 64% of the loans outstanding and own 45% of the total capital of the system. As the volume of consumer lending grew by over 70% in January-October, 2007, the share of loans exceeding one year stood at 44% of the total loan portfolio of the banking system, up from 43% last year. Non-performing loans were registered at 2% of the total lending portfolio in 2006, the latest data available. Foreign borrowing by Ukrainian banks has grown rapidly in recent years, from \$7.8 billion at the beginning of 2006 to \$25.7 billion after nine months of 2007. Greater reliance of banks on foreign borrowing to fund domestic lending operations raised concerns about the sensitivity of Ukraine's banking sector to international shocks. Borrowing rates for Ukrainian banks on international markets rose substantially as a result of the summer 2007 sub-prime crisis and credit crunch, yet as of December 2007 banks were still able to raise funds abroad, in part because several larger banks are now owned by foreign banks and can rely on their parent bank. Borrowing by Ukrainian banks from other banks grew by over 70% in 2007.

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 20.04 million (\$4 million) to UAH 133.3 million (\$26.3 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. In November 2006, Parliament approved an amendment to the law "On Banks and Banking Activity" permitting foreign banks to operate via branch offices. The law anticipates a transition period of five years and sets requirements for branches of foreign banks, including cooperation with the Financial Action Task Force and UAH 68.8 million (\$13.6 million or EUR 10 million) minimum capital of the branch. Foreign banks have significantly increased their presence in Ukraine's banking sector in recent years, usually through the acquisition of Ukrainian banks. Foreign banks now account for approximately 31% of bank capital in Ukraine.

Ukraine remains a cash economy, but the use of credit cards is on the rise. From January through September 2007, the use of credit cards increased by 13% and use of ATM cards increased by 51%, despite widespread credit/ATM card fraud in Ukraine.

INSURANCE

Currently, based on the 1996 Law "On 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. Parliament adopted amendments to the Law "On Insurance" in November 2006 and May 2007, however, that give foreign companies the right to operate in Ukraine through affiliates five years after Ukraine accedes to the WTO.

CAPITAL MARKETS

The legal and regulatory framework, as well as financial disclosure systems for the securities market, continues 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 State Commission (SSMSC) have insufficient enforcement power and are not always followed by the courts. Investors continue to face low market confidence, transitional accounting standards, a lack of accurate company information, inadequate protection of minority shareholders' rights, and a macroeconomic environment that, despite marked growth and economic modernization in recent years, remains volatile. 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:

- share securities (shares, investment certificates);
- debt securities (bonds of enterprises, state bonds of Ukraine, bonds of local loans, treasury obligations of Ukraine, savings (depository) certificates, bills of exchange);
- mortgage securities (mortgage bonds, mortgage certificates, mortgages, certificates of funds of operations with real estate);
- privatization securities;
- derivative securities;
- title securities

According to the SSMSC, 29 collective investment institutions, 757 securities traders, 186 custodians, 2 depositories, 361 registrars, and 11 self-regulatory organizations (six of which are associations) operated in Ukraine last year. Seven stock exchanges were registered in Ukraine. A Ukrainian securities industry broker/dealer self-regulatory organization (SRO) and its nationwide electronic trading system (PFTS) are the largest stock exchange with about 94.8% of secondary onshore trading. PFTS Stock Exchange market capitalization was UAH 565 billion (USD 112 billion) in late 2007. The Ukrainian government is currently considering options to consolidate the remaining, mostly dormant stock exchanges to enhance price transparency, and improve stock exchanges listing standards to establish corporate governance and information disclosure based on international norms.

The absence of a central securities depository complicates transparent and efficient transfer of ownership records, protection of ownership rights and clearance and settlement of trades. Although a state-owned National Depository was created in 1999, the market-owned MFS Depository has been operating commercially as the Ukrainian Depository since 1997 in line with current international practice. The Ukrainian

government is currently considering reform options to establish a predominately privately owned Ukrainian Central Depository through the merging of the two institutions.

Principal laws, decrees, and regulations governing Ukraine's capital markets include: the Law "On Securities and Stock Exchanges" (1991), replaced in May 2006 by the Law "On Securities and the Stock Market" (2006), the Law "On Business Associations" (1991), a Presidential Decree "On Investment Funds and Investment Companies" (1994), the Law "On State Regulation of Securities Markets" (1996), Amendments to the Law "On Business Associations" (1996), the Law "On the National Depository System" (1997), the Law "On Accounting and Financial Reporting" (1999), the Law "On Bankruptcy" (1992), the Law "On Collective Investment Institutions" (2001), and the Law "On Financial Services" (2001).

The 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. The Law "On the Circulation of Promissory Notes" (2001) provides a framework for the circulation of promissory notes in accordance with the Geneva Convention of 1930.

The new Law "On Securities and Stock Market" (2006) represents a major improvement over the prior Law "On Securities and Stock Exchanges" (1991), especially regarding internationally compliant disclosure requirements for listed companies, issues of transparency of ownership, and the new rules for insider information and insider trading.

The Law "On Business Associations" is vague and does not support basic shareholders rights and facilitates a large number of corporate governance abuses (including share dilution, asset stripping, and dubious transfer pricing). The law is widely recognized to be inadequate and in need of reform.

Political Violence

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Ukraine is largely free of significant civil unrest or disorders. However, occasionally, mass demonstrations occur in larger cities, such as Kyiv, usually sponsored by individual political forces. Pre-term parliamentary elections took place in September 2007 without any significant disruptions or violence. The likelihood of future widespread, politically inspired violence that would affect foreign property interests remains relatively low.

Corruption

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Corruption pervades all levels of society and government and all spheres of economic activity in Ukraine and is a major obstacle to foreign investment. President Yushchenko has made combating corruption a top priority, although much remains to be accomplished. Ukraine worsened in Transparency International's Year 2007 Corruption Perception Index (CPI), which was published in September 2007. The country moved down to 105th place in 2007 on the list of 180 countries, from 99th place out of 163 countries in 2006. In 2007, Transparency International rated Ukraine at 2.7 points on the CPI's 10-point scale, a decline from the 2006 rating of 2.8 points.

Corruption stems from a number of factors, such as a lack of institutional traditions of transparent decision-making and low 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, the health system, the tax administration, and the education system. Corruption within the Customs Service often makes it more difficult and more costly for businesses to import/export goods. High-level corruption ranges from misuse of government resources and tax evasion 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-level state employees or used retributively in political vendettas. In January 2006, the President Yushchenko signed a decree requiring Ukraine to honor its obligations to the Council of Europe, which include several anti-corruption provisions. In September 2006, the President signed a separate decree adopting a national anti-corruption strategy that directs all branches of government to support these efforts, and the Government of Ukraine followed up by adopting an Action Plan to implement this strategy. In October 2006, the President submitted to parliament a package of draft laws on anti-corruption and ratification instruments for the Council of Europe Criminal Law Convention on Corruption and the UN Convention against Corruption. In August 2007 the President announced a list of several "anti-corruption initiatives" that includes the setting up of a single anti-corruption agency that would develop a comprehensive anti-corruption policy and implement various anti-corruption measures.

In 2006 the U.S. Millennium Challenge Corporation funded Ukraine's proposal for a Threshold Country Program aimed at reducing corruption. This two-year program is providing about \$45 million in assistance to reform the judiciary, streamline regulatory procedures, institute internal assets declaration and inspector generals, enhance civil society and media monitoring of corruption, and reduce corruption in higher education admissions through standardized testing.

Although government action is still limited and uncoordinated, 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 parliamentary officials now openly discuss the problem of corruption with USG contacts and with the press and public at large. In March 2005, Ukraine ratified the Council of Europe Civil Law Convention on Corruption and became a member of the Council of Europe's Group of States Against Corruption (GRECO). GRECO has concluded its Joint First and Second Rounds of Evaluation of Ukraine and published its report in October 2007. Parliament has passed laws to ratify the Council of Europe Criminal Law Convention on Corruption, signed in January 1999, and the UN Anticorruption Convention, signed in December 2003. However, ratification of these Conventions will come into effect only when additional implementing legislation is adopted. Ukraine is not party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Bilateral Investment Agreements

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BILATERAL INVESTMENT AGREEMENTS

5/13/2008

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: Albania (2004), Austria (1996), Argentina (1995), Armenia (1994), Azerbaijan (1997), Belarus (1995), Belgium (2001), Bulgaria (1994), Brunei (2006), Canada (1994), Chile (1995), China (1992), Cuba (1995), Croatia (1997), the Czech Republic (1994), Denmark (1992), Egypt (1992), Estonia (1995), Finland (1992), France (1994), Gambia (2006), Georgia (1995), Germany (1993), Greece (1994), Indonesia (1996), Iran (1996), Israel (1995), Italy (1993), Hungary (1995), Kazakhstan (1994), Korea (1996), Kyrgyzstan (1993), Latvia (1997), Lebanon (1996), Lithuania (1994), Macedonia (1998), Moldova (1995), Mongolia (1992), the Netherlands (1994), Panama (2005), Poland (1993), Portugal (2003), Russia (1998), Saudi Arabia (2003), 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).

OPIC and Other Investment Insurance Programs

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The U.S.-Ukraine Overseas Private Investment Corporation (OPIC) Agreement was signed in Washington on May 6, 1992. OPIC halted support for projects in Ukraine in 1999, however, after the government of Ukraine failed to reimburse OPIC for OPIC's payment of a claim by a U.S. business whose investment had been expropriated. The government is now actively working to find a resolution to this dispute so that OPIC can resume its activities in Ukraine.

In July 2002, the Board of the U.S. Export-Import bank opened 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).

Labor

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LABOR AVAILABILITY

Ukraine has a well-educated and skilled labor force with nearly a 100 percent literacy rate. As of September 2007, unemployment (ILO methodology) stood at 6.2 percent, although unemployment in some regions, particularly in western Ukraine, was significantly higher.

WAGES

Wages in Ukraine are very low by Western standards but continue to grow steadily. As of October 2007, the nominal average monthly wage in Ukraine was UAH 1475 (\$292), up 35.6% from UAH 1088 (\$215) in October 2006. Real wages grew 12.6% between January and October 2007, compared to the same period in 2006. The highest wages are in the financial and aviation sectors while the lowest wages are paid to agricultural and public health workers.

MINIMUM WAGE

The minimum monthly wage was increased on January 1, 2008 to UAH 515 (\$102). Regular increases of the minimum wage are planned.

PENSIONS

In 2004 Ukraine began a comprehensive pension reform program, based on international standards, which envisaged a three-pillar system: Pillar I, a solidarity system, Pillar II, a mandatory accumulation system, and Pillar III, a voluntary private pension system.

For the solidarity system, Pillar I, retirement payouts are determined on the basis of the individual's labor records and contributions. Despite the major reform, the Pillar I system is complex with low retirement ages (60 for men and 55 for woman), full retirement benefits based on 20 years of service for woman and 25 years of service for men, and many special early retirement provisions.

Pillar II, the Mandatory Accumulation System, is to be funded by pension contributions made by individuals. The conditions for the introduction of Pillar II have been met, but new legislation is required. The draft law to introduce Pillar II was submitted to Parliament in December 2006 and passed the first reading in April 2007. The draft law provides for a gradual phase-in of employee contributions to the Accumulation Fund starting with 2% in 2009 and increasing by 1% per year to 7% in 2014.

Pillar III, voluntary private pension funds, began actual operations at the end of 2004. The development of private pension funds was positive in 2006, with an almost three-fold increase in assets and a 46 percent increase in the number of funds (from 54 private pension funds to 79).

According to the financial services regulator, private pension fund assets have increased by an average 35 percent per fiscal quarter since becoming available in 2004. In Q1 2005, assets under management of Private Pension Funds were \$2.53 million, in Q4 2006 - \$27.20 million, and in Q3 2007 - \$44.85 million. However, Ukraine's capital markets remain underdeveloped and do not provide these funds with enough sound, long-term investment opportunities in the equity, debt and real estate markets. As a result, assets of private pension funds continue to be invested primarily in bank deposits, which do not meet the long-term portfolio needs of these funds. The ongoing weakness of the market regulatory structure compounds the problem. If the situation continues, the risk will grow that private pension funds will fail to perform in line with the overall growth of the economy in the future. Various international donor initiatives are supporting the Ukrainian government's efforts to strengthen the breadth, liquidity and regulatory framework of the country's markets with the goal of creating the conditions for sustainable long term investment opportunities.

LABOR/MANAGEMENT RELATIONS

Ukrainian workers are generally accustomed to "top-down" management practices and therefore tend not to 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.

Ukraine's Labor Code remains outdated and inappropriate for a market economy. The government has drafted a new, more modern Labor Code, but it failed to move forward in Parliament in 2007 due to a protracted political crisis in the country.

Foreign-Trade Zones/Free Ports

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Ukraine has in the past maintained two forms of special economic zones (SEZs): Free Economic Zones (FEZs) and Priority Development Territories (PDTs). In April 2005, Ukraine canceled all tax exemptions (i.e., from land tax, corporate income tax, import duty, and VAT on imports) to investors in all SEZs to stop large-scale misuse of these zones for tax evasion and smuggling. While the step reduced corruption and expanded the tax base, the abrupt cancellation of privileges and lack of compensatory provisions caused losses to some legitimate investors. At the end of 2006, the Ukrainian government announced its intention to renew tax privileges granted to businesses operating in some SEZs and to introduce a compensation mechanism for investors, but a draft law on the subject never went forward. At least one SEZ had retained tax privileges due to a court ruling, but those and all other privileges were again annulled by the new Ukrainian government in December 2007. In November 2005, the Parliament adopted legislation to create technology parks, providing for some government financial support, targeted subsidies, and tax privileges for a list of 16 technoparks based on existing scientific and research institutes.

Foreign Direct Investment Statistics

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FOREIGN DIRECT INVESTMENT

According to Ukraine's State Statistics Committee, as of October 2007 the total stock of FDI in Ukraine was \$26.9 billion, or \$576 per capita. This was a 35.2% increase from October 2006, when the total stock of FDI stood at \$19.9 billion, or \$424 per capita.

Mittal Steel's October 2005 purchase of the Kryvorizhstal Steel Mill represented a major inflow of FDI, at \$4.8 billion, into Ukraine. Purchases of Ukrainian banks by European banks have represented another major inflow of foreign direct investment in recent years: Raiffeisen International acquired Bank Aval for \$1.0 billion in 2005; BNP Paribas acquired Ukrsibbank for \$360 million in 2005; UniCredit Group acquired Ukrsotsbank for \$2.1 billion in 2007; Swedbank acquired TAS-Kommerzbank for \$735 million in 2007; and Commerzbank acquired Forum Bank for \$600 million in 2007. Also in 2007, PepsiAmericas and PepsiCo jointly purchased 100% of the leading Ukrainian juice producer Sandora for a total of \$679 million.

FDI BY COUNTRY

As of October 1, 2007 Ukraine's major investors included: Germany (21.4% of total FDI), Cyprus (18.5%), the Netherlands (8.1%), Austria (7.5%), the United Kingdom (6.8%), the United States (5.3%), and Russia (5.0%). Cyprus remains a popular offshore destination for Ukrainian and Russian enterprises through which to channel investments.

FDI BY INDUSTRY SECTOR DESTINATION

Over the first 9 months of 2007, 15.7% of new FDI went to the financial sector, 8.5% -- to domestic trade, 8.4% -- to real estate, 5.7 % -- to the metallurgy sector, 5.6% -- to food, beverages, and tobacco production, 5.2% -- to construction, and 3.8% -- to machine building.

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How Do I Get Paid (Methods of Payment)

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Ukraine adheres to international legal instruments pertaining to international payments via checks, bills of exchange, letters of credit (L/C) and collection arrangements. All types of L/Cs (revocable, irrevocable, transferable, "Red clause", revolving, stand-by) are served by Ukrainian banks. The safest method of receiving payment for U.S. exports is through an irrevocable letter of credit (L/C).

The transfer of payment orders in foreign currencies is made either through a cover at the foreign partner-bank, or through the National Bank of Ukraine (NBU) international settlements department. 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).

Often U.S. exporters seek prepayment. As required by the Law of Ukraine "On the Procedure of Foreign Currency Payments" of 1994, Ukrainian companies must obtain goods (services) pre-paid to a foreign supplier, within a 90-day period. Exceeding this term requires an individual license from the National Bank of Ukraine.

Most Ukrainian distributors are interested in establishing long-term business relations on consignment or on an investment-sharing basis. Offering a flexible credit policy is important, not only for small-scale Ukrainian companies, but also for multimillion-dollar local firms.

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.

Still underdeveloped, Ukraine's banking sector promises high growth rates fueled by increasing consumer lending and corporate credit lines. Since the fall of 2005, agreements have been signed by European financial groups for the purchase of four top 10 Ukrainian banks in terms of assets. Sales of stakes in mid-sized Ukrainian banks

have followed, bringing the total percentage of foreign capital in the sector to above 25 percent. European banks are, however, expected to further strengthen their position on the Ukrainian market. As of December 1, 2007, 173 banks are operating in Ukraine, including 44 with foreign capital backing (16 of them with 100% foreign capital.)

Ukrainian lending rates range from 13.2 to 15.3 % per year (as of December 2007).

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 US dollar. In 2007 the exchange rate of hryvnia vis-à-vis the US dollar was pegged at a level of UAH 5.05 for one US dollar (stable the whole year.) Foreign investors are guaranteed the right to repatriate profit, income or other funds relating to investments without any restrictions, after the payment of applicable taxes. Conversion of funds for repatriation is done through the Ukrainian Inter-bank Currency Exchange.

The key provisions of Ukraine's current exchange control regulations are as follows:

- there are no requirements to convert foreign currency export proceeds into hryvnia;
- payments under foreign trade contracts between a resident and a non-resident entity should be in foreign currency only;
- foreign loans must be registered with the National Bank of Ukraine prior to their receipt;
- payments in foreign currencies between residents in the territory of Ukraine are prohibited (although there are some exceptions to this rule);
- salaries in the territory of Ukraine must be paid in Ukrainian currency only;
- Ukrainian companies must receive payment for exported goods (services), and obtain goods (services) pre-paid to a foreign supplier, within a 90-day period.

A Ukrainian company is required to obtain a license from the National Bank of Ukraine in respect of the following transactions:

- in-cash investments abroad in respect of acquisition of fixed assets, intangible assets, corporate rights, securities and derivatives;
- in-kind contributions and transfer of property to a foreign branch;
- the purchase of foreign securities and Ukrainian securities from non-residents;
- opening bank accounts with foreign banks.

Payments by Ukrainian business entities for services rendered by non-residents for amounts exceeding EUR 100,000 require confirmation from the Foreign Markets Monitoring Center (FMMC) that the fee for the services does not exceed market prices. Provided relevant documentation is in place, this should not be more than an administrative issue. However, the process cannot be taken lightly.

U.S. Banks and Local Correspondent Banks

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The only U.S. bank operating with a full subsidiary in Ukraine is Citibank (since 1997.) In September 2007 American Express Bank (AEB) opened its representative office in Kiev. AEB has 25 Ukrainian banks as its customers, and is currently the major international bank in US dollars clearing and Trade Finance for Ukrainian banks.

Among the U.S. banks that have correspondent relations with the National Bank of Ukraine and all major Ukrainian banks are: American Express Bank, Citibank N.A., JP Morgan Chase Bank, Wachovia Bank N.A., Deutsche Bank Trust Company Americas, and the Bank of New York.

In November 2006, Parliament passed a law that will permit foreign banks to operate branch offices in Ukraine once Ukraine joins the WTO (expected in mid-2008).

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 US\$150 million by the U.S. Government, has been fully operational in Ukraine, Belarus, and Moldova since June 1995. Since its inception, WNISEF has invested approximately \$120 million in 29 companies in the region in a range of industries with a concentration on fast moving consumer goods, construction materials, packaging, retail, and financial services. WNISEF is managed by Horizon Capital Associates, LLC.

The **Eurasia Foundation**, a privately managed grant-making organization established with financing from USAID, supports technical assistance, training, education, and policy programs. Since 1993, EF has invested more than \$42 million in grants, loans and technical assistance for local initiatives developing private entrepreneurship, public policy, and civil society in Ukraine. Today, the Foundation operates offices in Kyiv (Ukraine), Minsk (Belarus) and Chisinau (Moldova).

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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/>

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>

Western NIS Enterprise Fund (WNISEF): <http://www.wnisefk.com>

The Eurasia Foundation: <http://www.eurasia.kiev.ua>

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

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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.

Western businessmen should keep in mind that Ukraine has many traits of a kleptocratic business culture, featuring endemic corruption and a constellation of powerful well-connected oligarchs who may feel entitled to prey on vulnerable enterprises. For this reason, Ukrainian business partners often believe the key to the success of an enterprise is not the soundness of the business plan, but the availability of a powerful patron (or "roof") in government or industry.

Due to the general lack of knowledge about international business practices and terminology exhibited by many 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 U.S. factories or other places of business activity can literally be the "picture worth a thousand words," as not that many Ukrainians have been to the United States.

The form of business in Ukraine often takes precedence over 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.

An extraordinary emphasis should be 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 can be 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.

Background Notes are available on the U.S. Department of State's Travel & Business web site: <http://www.state.gov/r/pa/ei/bgn/3211.htm>

Background information on the Ukrainian culture and traditions is available on the web site of the Embassy of Ukraine in Washington D.C.:
<http://www.mfa.gov.ua/usa/en/263.htm>

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

Visa Requirements

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Depending on the length and purpose of travel, U.S. citizens may or may not be required to get a Ukrainian visa prior to coming to Ukraine. U.S. citizens are exempt from the requirement to have a Ukrainian visa as long as the duration of their stay in Ukraine does not exceed 90 days and the purpose of their travel is tourism. U.S. citizens whose planned stay in Ukraine exceeds 90 days, and so consequently bears the characteristics of a long-term stay, must have visas authorizing their entry into Ukraine. If the purpose of their visit is not tourism, an appropriate visa type must be obtained. U.S. citizens may apply for all types of visas through Ukrainian Embassies and Consulates overseas. A list of required documents for the visa application will be determined based on the purpose and length of travel on a case-by-case basis. Contact details for Ukrainian Embassies and Consulates are available on the Ministry of Foreign Affairs of Ukraine website. All foreigners entering or staying in Ukraine must be registered with Ukrainian authorities.

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.mfa.gov.ua/usa/en>
Consulate General of Ukraine in New York - <http://www.ukrconsul.org>
Consulate General of Ukraine in San Francisco - <http://www.ukrinesf.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.

All foreigners entering or staying in Ukraine must be registered with Ukrainian authorities. Registration for visits of up to 90 days is completed at the border when entering Ukraine. Such registration is valid for 90 days out of each period of 180 days. In other words, one may come to Ukraine for a short visit of tourist nature for a cumulative period of 90 days within 180 consecutive days without a visa. The calculation of the 90 day period begins from the date of first entry on the territory of Ukraine.

Future extensions for stays exceeding 90 days are completed through the Ministry of Internal Affairs of Ukraine, Office of Citizenship, Immigration and Registration. This office is also known as an "OVIR" office. Most cities will have several OVIR offices. 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. Applications for extension of registration should be submitted at least three days before the current registration expires.

For more details please visit the U.S. Embassy's web site:

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

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

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

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

Telecommunications

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For telephone service information please visit the web site of the U.S. Embassy in Ukraine: http://kyiv.usembassy.gov/amcit_misc_telephone_eng.html

Phone codes of Ukrainian cities and regions are available on the web sites:

<http://www.yellowpages.kiev.ua/dialcodesukr.php?l=3>

<http://www.brama.com/ukraine/citycode.html>

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. A metro map is available on http://www.kievconnections.com/metro_kiev_ukraine.htm. 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 taxis can be ordered by dialing: 0-58, 234-4444, 238-8238. Taxi services are listed on <http://kievukraine.info/taxi.htm> and <http://www.kiev-ukraine-information.com/kyiv-taxi.htm>. Avis (<http://www.avis.com.ua/> Tel: 502-2010), Hertz (<http://www.hertz.ua/> Tel: 492-3270), and Europcar (Tel: 238-2691) run operations in

Kyiv, Boryspil Airport, and other large cities.

Train travel is the least expensive and most convenient method to reach just about any location in Ukraine. Trains are slow, but generally safe. Train schedules are available on <http://poezda.meta.ua/index.php?language=en>.

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 from abroad to Ukrainian cities, other than from Kyiv, is available on a very limited basis.

Note: Ukrainian air services have not yet achieved FAA Category I status for flight safety and reliability.

Almost all international flights to Kyiv arrive at Boryspil International Airport (<http://www.airport-borispil.kiev.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 control points. The number of international airlines operating flights in and out of Kyiv is increasing. Delta flies directly from New York to Kyiv. 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. Flight schedules are available on <http://www.kiyavia.com/eng/info/timetable/>.

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

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.mfa.gov.ua/usa/en/>

Health

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Bring prescriptions with you and avoid drinking tap water (bottled water is readily available in major hotels and supermarkets). 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.

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://kyiv.usembassy.gov/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

Information on vaccinations and other health precautions, such as safe food and water precautions and insect bite protection, may be obtained from the Centers for Disease Control and Prevention's web site:

<http://www.cdc.gov/travel/destinationUkraine.aspx>

Local Time, Business Hours, and Holidays

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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	Tuesday	January 1
Orthodox Christmas	Monday	January 7
International Women's Day	Saturday, Monday	March 8, 10
Orthodox Easter	Sunday, Monday	April 27, 28
International Labor Day	Thursday, Friday	May 1, 2
Victory Day	Friday	May 9
Holy Trinity/Memorial Day	Sunday, Monday	June 15, 16
Constitution Day	Saturday, Monday	June 28, 30
Independence Day	Sunday, Monday	August 24, 25

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://kyiv.usembassy.gov/holidays_eng.html

Temporary Entry of Materials and Personal Belongings

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According to Ukrainian law, foreign citizens bringing more than USD 15,000 in cash into Ukraine must obtain a special license (all cash should be declared upon entry into the country). Amounts of less than USD 15,000 in cash 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://kyiv.usembassy.gov/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.mfa.gov.ua/usa/en/1604.htm>

Web Resources

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Travel information:

http://www.kmu.gov.ua/control/en/publish/officialcategory?cat_id=32672 - web site of the Cabinet of Ministers of Ukraine:

<http://www.mfa.gov.ua/usa/en/publication/content/14649.htm> - web site of the Embassy of Ukraine in Washington D.C.

Ukraine's tourist information (general overview, main attractions and places of special interest): <http://www.mfa.gov.ua/usa/en/publication/content/15954.htm>

Maps of Ukraine:

<http://map.meta.ua/>

<http://travel.kyiv.org/map/>

Information on banking, delivery and translation services in Ukraine are available on the U.S. Embassy's web site: http://kyiv.usembassy.gov/amcit_misc_eng.html

Web-search engines for Ukraine:

<http://meta.ua/en/>

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

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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://kyiv.usembassy.gov/>

U.S. Commercial Service, U.S. Embassy Ukraine
Richard Steffens, Commercial Counselor
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/en/>

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.ua>

GOVERNMENT OF UKRAINE

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

STATE STATISTICS COMMITTEE OF UKRAINE

<http://ukrstat.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.

Trade Events

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Please click on the links below for information on upcoming trade events:

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