



Ukraine: Major Trends in the Ukrainian ICT Industries

ICT

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Part 1- Market Overview

Ukraine is an emerging market economy at the crossroads of EU, Russia, Central Asia, and the Middle East and holds great potential as a new market for U.S. trade and investment. Ukraine has achieved significant progress in opening its market to exports and investment, particularly in the last few years. Despite some progress in deregulation, domestic and foreign investors continue to be discouraged by a burdensome array of tax, customs and certification requirements, as well as by corruption, the lack of effective corporate governance, and political uncertainty.

Exports from Ukraine, reduction of capital flight, growing households' revenues, booming retail trade and retail banking have been the main factors behind Ukraine's recent economic performance. Increased consumer confidence is also reflected in the banking sector where household and business bank accounts are increasing. Ukraine plans to join WTO in early 2008. Several major trends are shaping this very dynamic market:

- The sale of key industrial enterprises to corporate international holdings.
- The entry of major international banks and insurance companies into the market
- Booming individual consumption fueled by growing availability of bank credits
- Growing number of international manufacturers that establish factories in Ukraine to supply European end-users.

U.S. businesses exporting goods to Ukraine will discover that the country's commercial infrastructure, which is still only partially developed, has matured rapidly over the last five years. Logistics and distribution networks have improved dramatically. And international financing, leasing, and licensing to help exports are becoming more common. Although foreigners may find Ukraine's import regime daunting, it is not insurmountable and is comparable to other transitional economies in the region.

Part 2- The Marketplace for Business Process Technology

A more legitimate and transparent market for computer software is slowly taking shape in Ukraine. Enforcement of IPR legislation, steady growth of the Ukrainian economy in 2000-2007, and resurrection of local manufacturing industries have generated a substantial increase in demand for computer software for industrial and business needs.

The exact size of the Ukrainian computer software market is difficult to measure, because both major subsectors of the computer software market: the imported software and the software development feel a severe impact of the shadow economy. Imported software dominates on the office software market and on the market of software solutions for government, businesses and industry. 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. 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. One of the specific features that may indicate a new trend on the market is an impressive growth in sales to households, small and medium businesses.

Ukraine is well known as a low cost site for high quality software development. Unofficial estimates indicate that this industry employs 25,000 of programmers and many more specialists of different backgrounds and qualification.

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 for high-tech antiterrorist equipment, which is not manufactured locally. U.S. firms should note that the import of security and safety equipment into Ukraine requires certification and licensing from relevant Ukrainian government agencies, which is often a cumbersome process. U.S. exporters should also be aware that export of some security items to Ukraine is subject to the export licensing by the U.S. Department of Commerce (see www.export.gov)

Part 3- The Marketplace for Communications Technology

Telecommunications and IT are important infrastructure sectors in Ukraine. The revival of the Ukrainian economy after 2000, as well as foreign and domestic investments in telecommunications made over the last 15 years, have 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%).

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) are servicing over 51 million customers (total Ukraine's population is 47 million). Reportedly, two leading mobile operators, MTS and Kyivstar have over 20 million customers each, while other operators lag far behind. The market penetration for mobile communications is over 107%. It should be noted though, that Ukrainian operators account their customers based on the number of activated SIM-cards not on the number of contracts. With this level of market penetration, growing competition and overwhelming dominance of the voice component in the mobile traffic, the numeric growth of the GSM customer base is no longer a priority, and mobile operators are actively pursuing new strategies to increase their revenues. Specifically, mobile operators report 100% annual growth in mobile content beginning from 2005.

In December 2005, regulatory authorities in preparation for Ukrtelecom privatization issued Ukrtelecom a license for 3G (UMTS) mobile network deployment. In November 2007 after repetitive delays Ukrtelecom launched 3G mobile network using Nokia Flexi WCDMA technology supplied by Nokia Siemens Networks. Parts of the network also use a comparable technology solution supplied by Huawei. Estimated costs of this project vary from \$150 million (Ukrtelecom's estimates) to \$1 billion (independent estimates). This far Ukrtelecom's 3G network covers only 7 major Ukrainian cities. Its market share is

expected to grow to 5% by 2010. An alternative private 3G operator PEOPLEnet that launched CDMA EV-DO technology based services in early 2007 has less than 0.1% market share. Although other major mobile carriers also expressed their interest to obtain 3G licenses and spectrum resource, their requests have been declined so far.

Earlier we reported that some Ukrainian industry executives have viewed WiMAX as a provisional cost effective alternative to 3G in public networks, however, continuing problems with spectrum allocation and equipment availability will most likely limit its use in Ukraine to local loop corporate, industrial and security solutions. In November 2006 the Ukrainian government issued 30 regional WiMAX licenses. In October 2007 Ukrainian-British JV Pan-Wireless bought nationwide WiMAX license for the spectrum band of 5,730-5,760 GHz.

Internet

Reportedly, as of May 2007 there were close to 5 million Internet users in Ukraine. Unfortunately, the geographic distribution of Internet users is very uneven. Kiev, the capital accounts for over 61%, the share of six other big cities (Dnypropetrovsk, Odessa, Kharkyv, Lvyy, 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. The other trend that can boost internet development in Ukraine is the growing internet awareness of households. Cable TV operators play an active role in this process.

Part 4 – The Marketplace for Digital Equipment & Systems

Computers & Peripherals

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 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 belong 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 their operation. Import duties and customs fees no longer play a barrier role 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.

Electronic components

Several leading international electronic component manufacturers such as Jabil Circuit Inc., Yadzaki, Flextronic and Tyco Electronics have initiated major manufacturing projects in Ukraine. When implemented at full scale, these projects will turn Ukraine into one of the leading suppliers of electronic components to the European Union electronic industry.

Part 5 – Future Prospects in this Market

Issuance of WiMAX licenses and 3G licenses will create good business opportunities for U.S. suppliers of equipment for wireless networks especially in the local loop segment. Further promotion of internet connectivity through digital TV cable networks will lead to huge growth in value-added services and legitimate software sales.

The local market offers evidence of a growing demand for high-tech antiterrorist equipment, which is not manufactured locally. It may be expected that government agencies such as customs, railroads, airlines, airports, state law enforcement agencies and private security companies will show a growing interest toward advanced surveillance and access control systems.

Ukraine is slowly turning into a manufacturing site for suppliers of electronic components servicing EU market.

Part 6 – Important USDOC Resources in this Market

Product Literature Center at EnterEx /ExpoTel IT and Telecom Exhibition, February 19-22, 2008
Product Literature Center at BEZPEKA (Security) Exhibition, October 2008
CS Kiev web site: <http://www.buyusa.gov/ukraine/en/>

For More Information

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