

EXHIBIT 15

SUBJECT: UKRAINE 2000 INVESTMENT CLIMATE STATEMENT

22 AUGUST 2000

SOURCE: US EMBASSY KIEV

A.1 OPENNESS TO FOREIGN INVESTMENT

GENERAL GOVERNMENT ATTITUDE TOWARD FOREIGN INVESTMENT:
THE GOU OFFICIALLY MAINTAINS THAT IT IS ACTIVELY
INTERESTED IN CREATING A FREE MARKET ECONOMY AND WANTS
TO ATTRACT FOREIGN INVESTMENT. HOWEVER, UKRAINE IS
STILL CONSIDERED ONE OF EUROPE'S MOST DIFFICULT PLACES

TO DO BUSINESS, A 1999 SURVEY BY THE
RECONSTRUCTION AND DEVELOPMENT (EBRD) FOUND. THE
COUNTRY CONTINUES TO STRUGGLE THROUGH ITS TRANSITION,
HAS BEEN SLOW TO IMPLEMENT MUCH-NEEDED REFORMS, AND
HAS FAILED TO ESTABLISH AN INVESTMENT CLIMATE THAT
ENCOURAGES BUSINESS AND INVESTMENT. INVESTORS
CONTINUE TO VOICE THE SAME COMPLAINTS -- WEAK RULE OF
LAW, OVERZEALOUS TAX COLLECTION, SUDDEN TAX LAW
CHANGES, ABROGATION OF VALID CONTRACTS AND LICENSES,
AND CORRUPTION. MANY FOREIGNERS WHO WERE WAITING
UNTIL AFTER THE FALL 1999 PRESIDENTIAL ELECTIONS TO
INVEST CONSIDERED THE APPOINTMENT OF THE NEW REFORM-
MINDING PRIME MINISTER AND (MANY MEMBERS OF) THE
CABINET ENCOURAGING, BUT INVESTORS REMAIN IN A "WAIT-
AND-SEE" MODE. INVESTORS PERCEIVE SOME IMPROVEMENTS
(ALTHOUGH NOTHING TANGIBLE), AND IN GENERAL, INVESTORS
REPORT THE NEW ADMINISTRATION TO BE MORE RECEPTIVE
TOWARD THEM AND THEIR DIFFICULTIES.

MAJOR LAWS/RULES AFFECTING FOREIGN INVESTMENT:
ALTHOUGH THE GOU WANTS FOREIGN INVESTMENT, IT HAS HAD
DIFFICULTY ADOPTING AND IMPLEMENTING LEGISLATION THAT
WOULD ENCOURAGE IT. AN ANALYSIS OF ECONOMIC
LEGISLATION DATED JULY-AUGUST 1999 BY THE
INTERNATIONAL CENTRE FOR POLICY STUDIES (ICPS) FOUND
THAT WHILE THE GOU'S DECLARED OBJECTIVE WAS TO BUILD A
COMPETITIVE ECONOMY, THE ACTUAL DECISIONS BY THE GOU,
STILL BURDENED BY THE SOVIET LEGACY, WERE IN FACT
BIASED TOWARDS TIGHTENING CONTROL OVER THE ECONOMY.
UKRAINE HAS MODIFIED ITS FOREIGN INVESTMENT LAW OF
1996 AND LAW OF INVESTMENT ACTIVITY OF 1992 SEVERAL
TIMES, REMOVING CERTAIN TAX BREAKS PREVIOUSLY ACCORDED
FOREIGN INVESTORS AND EQUALIZING TAX TREATMENT OF
FOREIGN AND DOMESTIC INVESTORS. (A FEBRUARY 2000 LAW
NULLIFIED THE 1992 LAW AND CLAUSE FIVE OF THE 1996
LAW). THE LAW PASSED IN 1996 GUARANTEED REGISTERED
FOREIGN INVESTORS EQUAL TREATMENT WITH LOCAL
COMPANIES. THE LAW ALSO PROVIDED CERTAIN PROTECTIONS,
INCLUDING GENERAL GUARANTEES AGAINST EXPROPRIATION,
UNHINDERED TRANSFER OF PROFITS AND POST-TAX REVENUES,
AND A TEN-YEAR GUARANTEE AGAINST CHANGES IN
LEGISLATION THAT AFFECT THESE BASIC PROTECTIONS. THE
SCOPE AND THE ABILITY TO MAKE FOREIGN INVESTMENTS WAS
ALSO STRENGTHENED.

A NEW PRODUCTION SHARING AGREEMENT (PSA) LAW EFFECTIVE
OCTOBER 1999 PROVIDED A LEGAL FRAMEWORK GUARANTEEING
THAT THE TERMS OF CONTRACTS FOREIGN INVESTORS IN

NATURAL RESOURCES (NOTABLY OIL AND GAS) SIGN WITH THE GOU WILL NOT BE CHANGED AFTER THE INVESTMENT IS IN PLACE. PRIOR TO THE PASSAGE OF THE PSA LAW, COOPERATIVE AGREEMENTS AND JOINT VENTURES WERE THE ONLY MECHANISMS FOR INITIATING OUTSIDE INVESTMENT IN OIL AND GAS EXPLORATION AND PRODUCTION. HOWEVER, SEVERAL OTHER LEGISLATIVE AND REGULATORY MEASURES NEED TO BE TAKEN BY THE UKRAINIAN PARLIAMENT AND GOVERNMENT BEFORE THE PSA REGIME WILL BE FULLY EFFECTIVE.

CLOSED SECTORS:

UKRAINIAN LEGISLATION RESTRICTS FOREIGN PARTICIPATION TO 49 PERCENT OR LESS IN THE CHARTER CAPITAL OF ENTERPRISES IN CERTAIN SECTORS SUCH AS TELECOMMUNICATIONS AND INSURANCE AND IN CERTAIN PRIVATIZED "STRATEGIC" ENTERPRISES; FOREIGN SHARES OF TV AND RADIO BROADCASTING AND PUBLISHING COMPANIES CANNOT EXCEED 30 PERCENT.

UKRAINE'S RECENTLY AMENDED ANTI-MONOPOLY LAW PREVIOUSLY REQUIRED THAT THE ESTABLISHMENT OF A LEGAL ENTITY, MERGERS, AND ACQUISITIONS BE APPROVED BY THE ANTI-MONOPOLY COMMITTEE IF THE INVESTMENT FULFILLED CERTAIN CRITERIA (E.G. ACQUIRING A CERTAIN PERCENTAGE OF THE VOTING RIGHTS IN AN ENTERPRISE, OR WHEN COMBINED ASSETS EXCEEDED A FIXED AMOUNT). THE THRESHOLD WAS SET SO LOW THAT NEARLY ALL EQUITY INVESTMENTS, JOINT VENTURES WITH MULTIPLE PARTICIPANTS, AND SHARE ACQUISITIONS REQUIRED ANTI-MONOPOLY COMMITTEE APPROVAL, ALTHOUGH THE CABINET RAISED THE BAR (SOMEWHAT) IN NOVEMBER 1999.

PROCUREMENT:

A GOVERNMENT PROCUREMENT LAW SIGNED IN MARCH 2000 REQUIRES THAT PRIORITY BE GIVEN TO UKRAINIAN BIDDERS WHEN THE GOVERNMENT IS SOLICITING BIDS FOR THE PURCHASE OF GOODS AND SERVICES AND GIVES A TEN PERCENT PREFERENTIAL ALLOWANCE TO DOMESTIC BIDDERS.

FOREIGN PARTICIPATION IN PRIVATIZATION:

INTERNATIONAL DONOR ORGANIZATIONS HAVE LOST PATIENCE WITH UKRAINE'S SLOW PACE OF STRATEGIC PRIVATIZATION AND HAVE PUSHED THE GOU TO PRODUCE RESULTS QUICKLY IN

EXCHANGES, AND ADOPTED NEW TENDER REGULATIONS TO SELL CONTROLLING SHARES TO STRATEGIC INVESTORS, IT FAILED TO IMPLEMENT THE NEW REGULATIONS AND AS OF MID-2000 HAS YET TO SELL A MAJORITY STAKE IN AN ATTRACTIVE COMPANY TO A NON-CIS STRATEGIC FOREIGN INVESTOR.

CORPORATE GOVERNANCE ISSUES REMAIN A MAJOR IMPEDIMENT TO PRIVATIZATION AND ENTERPRISE RESTRUCTURING. WESTERN DONORS ARE ENGAGED IN EFFORTS TO UPGRADE CORPORATE GOVERNANCE IN UKRAINE WITH A FOCUS ON CORPORATE OWNERSHIP, SHAREHOLDER RIGHTS, TRANSPARENCY, AND DISCLOSURE, WHICH MAY ENABLE ADOPTION OF NEEDED ACCOUNTING STANDARDS AND INDEPENDENT FINANCIAL ASSESSMENTS.

APPROVAL BY THE RADA OF THE YEAR 2000 PRIVATIZATION PLAN IMPROVED THE GOVERNMENT'S ABILITY TO ACCELERATE PRIVATIZATION WITH FOREIGN PARTICIPATION. FURTHERMORE, ON JULY 13, 2000, THE RADA ADOPTED THE LAW ON THE UKRTELECOM PRIVATIZATION. THE LAW PROVIDES FOR THE STATE TO RETAIN OWNERSHIP OF 50 PERCENT STAKE PLUS ONE SHARE, AND CONDUCT A TENDER SELLING 25 PERCENT PLUS ONE SHARE OF THE COMPANY TO AN INDUSTRIAL INVESTOR FOR CASH. THE LAW ALSO ALLOWED THE TRANSFER OF HALF OF THE STATE-OWNED STAKE IN UKRTELECOM TO THE INVESTOR FOR MANAGEMENT. A COMMISSION COMPRISED OF LEGISLATIVE AND EXECUTIVE BRANCH REPRESENTATIVES WILL DESIGN THE MECHANISM OF THE COMPANY'S PRIVATIZATION AND SELECT A PRIVATIZATION ADVISOR. PRESIDENT KUCHMA SIGNED THE BILL INTO LAW ON AUGUST 8, 2000.

THE STATE PROPERTY FUND HAS PLANS TO PRIVATIZE A TOTAL OF 40 ENTERPRISES WITH THE HELP OF ADVISORS. AT THE TIME OF CREATION OF THIS REPORT, CREDIT SUISSE FIRST BOSTON ADVISES ON PRIVATIZATION OF SEVEN ENERGY DISTRIBUTION COMPANIES, RAIFFEISENBANK ADVISES ON PRIVATIZATION OF ZAPORIZHIA ALUMINUM PLANT, AND A CONSORTIUM HEADED BY COMMERZBANK AG ADVISES ON PRIVATIZING THE CRIMEAN SODA PLANT, AND KHARTSYZK PIPE PLANT.

THE SPF EXCEEDED EXPERTS' EXPECTATIONS BY RAISING UAH 761.87 MILLION IN 1999, BUT FELL SHORT OF THE UAH 800 MILLION TARGET. EARLY 2000 FIGURES ARE ENCOURAGING; IN THE FIRST TWO MONTHS, THE SPF RAISED UAH 240 MILLION. HOWEVER, SUCCESSFUL PRIVATIZATION WILL DEPEND ON THE SALE OF CONTROLLING STAKES IN ATTRACTIVE COMPANIES TO STRATEGIC INVESTORS AND A HOST OF OTHER FACTORS, INCLUDING A TRANSPARENT LEGISLATIVE ENVIRONMENT, POLITICAL WILL, AND RENEWED INTEREST AND COURAGE FROM INTERNATIONAL INVESTORS. ON JULY 20, FINANCE MINISTER MYTIUKOV REPORTED THAT RECEIPTS GAINED FROM STATE-OWNED PROPERTY PRIVATIZATION IN THE FIRST SIX MONTHS OF 2000 REACHED APPROXIMATELY UAH ONE BILLION.

THE PRIVATIZATION PROCESS DOES NOT DISCRIMINATE AGAINST FOREIGN INVESTORS; FROM THE START OF THE PRIVATIZATION PROCESS TO THE PURCHASE, A RELATIVELY LEVEL PLAYING FIELD EXISTS. THE OVERALL RULES ARE THE SAME FOR FOREIGNERS AND LOCALS. CASH AUCTIONS MUST GO THROUGH A LOCAL INSTITUTION, BUT IT IS NOT DIFFICULT TO FIND A BROKER TO REPRESENT FOREIGN INVESTORS. THE GOU HAS NOT TAKEN SOME BASIC STEPS (SUCH AS ANNOUNCING TENDERS IN INTERNATIONAL BUSINESS PUBLICATIONS) THAT WOULD ATTRACT STRATEGIC INVESTORS. HOWEVER, IT HAS TAKEN SOME STEPS, SUCH AS THE DISSOLUTION IN FEBRUARY 2000 OF NAMSCR, THE AGENCY PREVIOUSLY TASKED WITH MANAGING STATE-OWNED STAKES IN THOUSANDS OF COMPANIES, AND THE PRESIDENT'S MARCH 2000 ORDER TO LIQUIDATE THE GOU-CONTROLLED INVESTMENT FUND DERZHINVEST, WHICH SEEMED TO WIN A DISPROPORTIONATE NUMBER OF TENDERS, THAT SIGNALLED THAT THE GOU WAS IN FACT MORE INTERESTED IN SELLING SHARES THAN IN MANAGING THEM.

A.2 CONVERSION AND TRANSFER POLICIES

RESTRICTIONS ON CONVERTING/TRANSFERRING FUNDS:
THE APRIL 1996 FOREIGN INVESTMENT LAW GUARANTEES FOREIGN INVESTORS THE "UNHINDERED TRANSFER" OF PROFITS, REVENUES, AND OTHER PROCEEDS IN FOREIGN CURRENCY AFTER COVERING TAXES AND OTHER MANDATORY PAYMENTS. UKRAINE'S NEW CURRENCY, THE HRYVNIA, WAS INTRODUCED IN 1996. AFTER OFFICIALLY MAINTAINING A CURRENCY BAND SINCE 1997, IN 2000 THE GOU ALLOWED THE HRYVNIA EXCHANGE RATE TO FLOAT FREELY. THE

OFFICIAL EXCHANGE RATE, THE NATIONAL CURRENCY DEVALUED BY 52.2 PERCENT IN 1999.

FOREIGN CURRENCY EXCHANGE:
THERE ARE CURRENTLY NO LIMITATIONS ON THE FREQUENCY OF REPATRIATION OF EARNINGS. IN GENERAL, FOREIGN EXCHANGE IS READILY AVAILABLE AT MARKET-DETERMINED RATES, AND INVESTORS CAN CONVERT THEIR EARNINGS INTO FOREIGN CURRENCY THROUGH COMMERCIAL BANKS, WHICH PURCHASE FOREIGN CURRENCY AT THE INTERBANK MARKET. COMMERCIAL BANKS CAN TRADE FOREIGN CURRENCY BETWEEN EACH OTHER OR PARTICIPATE IN ELECTRONIC CURRENCY TRADING AT THE UKRAINIAN INTERBANK CURRENCY EXCHANGE (UICEX). TRADE AND EXCHANGE RESTRICTIONS INTRODUCED AFTER THE AUGUST 1998 FINANCIAL CRISIS ARE BEING SCALED BACK. FOR EXAMPLE, ENTERPRISES WITH FOREIGN INVESTMENT ARE STILL REQUIRED TO CONVERT HALF OF THEIR FOREIGN CURRENCY REVENUES TO THE NATIONAL CURRENCY. INVESTORS SHOULD BE AWARE THAT SUCH REGULATIONS CHANGE REGULARLY AND THE NBU IS SOMETIMES FORCED TO PROTECT THIN FOREIGN CURRENCY RESERVES.

FOREIGN CURRENCY LOANS:
EFFECTIVE JANUARY 21, 2000, THE NATIONAL BANK OF UKRAINE (NBU) CHANGED REGULATIONS GOVERNING EXTENSION OF FOREIGN CURRENCY LOANS BY UKRAINIAN BANKS TO UKRAINIAN BORROWERS. THE NEW REGULATIONS PERMIT THE EXTENSION OF FOREIGN CURRENCY LOANS TO ANY RESIDENT LEGAL ENTITIES AND INDIVIDUAL ENTREPRENEURS (INCLUDING RESIDENTS USING CARDS OF INTERNATIONAL PAYMENT SYSTEMS), AND FOREIGN BANKS AS WELL. ON JANUARY 24, ANOTHER NBU RESOLUTION, NUMBER 602, APPROVED NEW REGULATIONS IN FURTHERANCE OF A PRESIDENTIAL DECREE PERTAINING TO THE REGULATION OF PROCEDURES FOR RECEIPT FROM NON-RESIDENTS OF LOANS, INTEREST-FREE CREDITS IN FOREIGN CURRENCY, AND THE APPLICATION OF SANCTIONS FOR CURRENCY VIOLATIONS. THE LEGISLATIVE CHANGES LIBERALIZE AND MAKE MORE PRECISE THE RULES FOR LENDING IN UKRAINE AND MAY DECREASE BORROWERS' COSTS OF OBTAINING FINANCING.

ON MAY 18, 2000, PARLIAMENT AMENDED THE CRIMINAL CODE TO ELIMINATE CRIMINAL CHARGES FOR ILLEGAL TRADE OF HARD CURRENCY AND REPLACE THEM WITH ADMINISTRATIVE PENALTIES. THE LAW PROVIDES FOR RELEASE OF THE IMPRISONED AND CANCELLATION OF SENTENCES FOR ILLEGAL CURRENCY TRADE.

A.3 EXPROPRIATION AND COMPENSATION

ON SEPTEMBER 15, 1999, THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) PAID COMPENSATION IN THE FULL AMOUNT OF AN INVESTOR'S OPIC EXPROPRIATION COVERAGE (\$17.7 MILLION). THE INVESTOR HAS ASSIGNED ITS CLAIMS AGAINST THE GOU TO OPIC, AND OPIC PLANS TO SEEK COMPENSATION FROM THE GOU. UNDER THE 1996 LAW ON FOREIGN INVESTMENT, A QUALIFIED FOREIGN INVESTOR IS PROVIDED GUARANTEES AGAINST NATIONALIZATION, EXCEPT IN CASES OF NATIONAL EMERGENCIES, ACCIDENTS, OR EPIDEMICS.

A.4 DISPUTE SETTLEMENT

EXTENT AND NATURE OF INVESTMENT DISPUTES:
AS THE NUMBER OF FOREIGN INVESTMENTS HAS GROWN, SO TOO HAS THE INCIDENCE OF DISPUTES. THE EMBASSY HAS BEEN INVOLVED IN NUMEROUS ADVOCACY CASES ON BEHALF OF AMERICAN INVESTORS WHO HAVE BEEN THE VICTIMS OF A VARIETY OF ABUSES, INCLUDING OVERZEALOUS TAX COLLECTION, SUDDEN AND DRASTIC TARIFF HIKES, ABROGATION OF VALID CONTRACTS AND LICENSES, AND OUTRIGHT CORRUPTION. AT THE HEART OF THESE DISPUTES IS THE LACK OF TRANSPARENCY IN UKRAINE'S BUSINESS ENVIRONMENT, THE PROBLEM OF AUTHORITY (OR LACK THEREOF), AND NON-IMPLEMENTATION OF COURT DECISIONS. UKRAINIAN LAWS AND REGULATIONS ARE VAGUE AND OPEN TO CONSIDERABLE LEEWAY IN INTERPRETATION, PROVIDING AMPLE CORRUPTION OPPORTUNITIES FOR OFFICIALS AT EVERY BUREAUCRATIC LAYER. WHILE SOME KEY HIGH-LEVEL UKRAINIAN GOVERNMENT OFFICIALS ARE AWARE OF THE PROBLEMS AND ARE SENSITIVE TO THE NEEDS OF FOREIGN COMPANIES, THE PROBLEM LIES IN THE RELATIVE INDEPENDENCE OF ACTION OF THE MIDDLE LEVELS OF THE BUREAUCRACY.

DESCRIPTION OF UKRAINE'S LEGAL SYSTEM:
UKRAINE'S LEGAL SYSTEM IS BASED ON CIVIL (RATHER THAN COMMON) LAW, AND AS SUCH, THE BASIS OF THE SYSTEM IS ENACTED LAW (IN THE FORM OF CODES OR SEPARATE ACTS). THE COURT SYSTEM CONSISTS OF THE CONSTITUTIONAL COURT AND COURTS OF GENERAL JURISDICTION. THE GENERAL JURISDICTION COURTS CONSISTS OF COURTS BASED ON TERRITORY AND COURTS BASED ON SPECIALIZATION. COURTS OF GENERAL JURISDICTION REVIEW AND SETTLE CIVIL, CRIMINAL AND ADMINISTRATIVE CASES. THE SPECIALIZED "ARBITRAZH" (COMMERCIAL) COURT REVIEWS BUSINESS DISPUTES, BANKRUPTCY, AND ANTIMONOPOLY CASES. THE SUPREME COURT OF UKRAINE IS THE HIGHEST WITHIN THE SYSTEM OF GENERAL COURTS.

ENFORCEMENT OF RIGHTS:
MOST U.S. BUSINESSES AVOID THE UKRAINIAN JUDICIAL SYSTEM, BECAUSE THE LOCAL AND NATIONAL COURT SYSTEMS ARE BURDENSOME AND HIGHLY UNPREDICTABLE. SOME INVESTORS HAVE REPORTED INSTANCES IN WHICH THE UKRAINIAN JUDICIAL SYSTEM APPEARED SUBJECT TO

CONSIDERABLE POLITICAL INTERFERENCE AND/OR SUFFERED FROM CORRUPTION AND INEFFICIENCY. EVEN WHEN FIRMS RECEIVE FAVORABLE RULINGS FROM UKRAINIAN COURTS, THE COUNTRY'S JUDICIAL SYSTEM LACKS THE MECHANISM NECESSARY TO ENFORCE COURT JUDGMENTS IN THEIR FAVOR. A 1999 SURVEY CONDUCTED BY ICPS FOUND THAT OF THE LAWSUITS BUSINESSES FILED IN ARBITRATION COURT FOR BREACH OF CONTRACT, ONLY HALF OF THE RESULTING JUDGMENTS WERE IMPLEMENTED, BECAUSE DEFENDANTS LACKED THE NECESSARY FUNDS TO MEET CREDITOR CLAIMS; DEBT COLLECTION PROCEDURES ARE INADEQUATE, OR A STATE ENTERPRISE WAS THE DEFENDANT. ONE PARTIALLY SUCCESSFUL METHOD USED FOR THE SETTLEMENT OF INVESTMENT DISPUTES HAS BEEN EMBASSY APPEAL FOR INTERVENTION AT THE HIGHEST LEVELS OF GOVERNMENT -- CLEARLY NOT A VIABLE LONG-TERM SOLUTION.

COMMERCIAL LAW:

THE DRAFT CIVIL CODE WAS APPROVED IN SECOND READING BY THE VERHOVNA RADA ON JUNE 8, 2000, MARKING AN IMPORTANT STEP TOWARDS COMMERCIAL LAW REFORM. THE DRAFT CIVIL CODE ADDRESSES PRIVATE OWNERSHIP PROTECTION, FREEDOM OF CONTRACT, AND FREEDOM OF ENTREPRENEURSHIP, AND PROVIDES A UNIFIED FRAMEWORK FOR ECONOMIC REGULATIONS. THE CIVIL CODE ALSO GOVERNS THE RIGHTS OF INDIVIDUALS AND LEGAL ENTITIES, INTERNATIONAL LEGAL ACTIONS FOR INVESTORS, AND SERVES AS A FRAMEWORK FOR CRIMINAL, ADMINISTRATIVE, PROCEDURE, TAX, AND OTHER CODES. MANY LEGISLATIVE INITIATIVES, SUCH AS THE JOINT STOCK COMPANY, PROPOSED LAND CODE, AND TAX INITIATIVES WOULD BE AFFECTED BY THE ADOPTION OF THE CIVIL CODE. PROSPECTS FOR FINAL PASSAGE BEFORE THE END OF 2000 ARE CONSIDERED GOOD.

BANKRUPTCY LAW:

A COMPREHENSIVE NEW BANKRUPTCY LAW THAT CREATED THE FRAMEWORK FOR A MODERN INSOLVENCY REGIME WENT INTO EFFECT ON JANUARY 1, 2000. THE NEW LAW PROVIDES FOR DEBTOR-LED REORGANIZATION, A MEANINGFUL MORATORIUM ON PAYMENT AND COLLECTION OF PRE-EXISTING DEBT, AND A

CONSIDERED BY FOREIGN EXPERTS TO BE ONE OF THE MOST PROGRESSIVE BANKRUPTCY LAWS IN THE FORMER SOVIET UNION.

BINDING INTERNATIONAL ARBITRATION:

UKRAINE ENACTED AN INTERNATIONAL COMMERCIAL ARBITRATION LAW IN FEBRUARY 1994. THE LAW PARALLELS COMMERCIAL ARBITRATION LAWS SET FORTH BY THE UNITED NATIONS COMMISSION ON INTERNATIONAL TRADE LAW AND IS THEREFORE IN ACCORDANCE WITH INTERNATIONAL STANDARDS. UKRAINE IS ALSO A MEMBER OF THE NEW YORK CONVENTION OF 1958 ON THE RECOGNITION AND ENFORCEMENT OF FOREIGN ARBITRATION AWARDS. SOME PARTIES HAVE BEEN ABLE TO ENFORCE FOREIGN ARBITRATION AWARDS IN UKRAINE, ALTHOUGH THERE HAS NOT BEEN UNIVERSAL SUCCESS.

ICSID MEMBERSHIP:

IN EARLY 2000, PARLIAMENT RATIFIED THE WASHINGTON CONVENTION, PROVIDING AN INTERNATIONALLY RECOGNIZED

MECHANISM FOR RESOLVING INVESTMENT DISPUTES BETWEEN INVESTORS AND THE GOVERNMENT OF UKRAINE. (THE BILATERAL INVESTMENT TREATY SIGNED BETWEEN THE UNITED STATES AND UKRAINE ON NOVEMBER 16, 1996 INCLUDED UKRAINE'S CONSENT TO SUBMISSION OF INVESTMENT DISPUTES TO ARBITRATION UNDER THE AUSPICES OF ICSID.) HOWEVER, USE OF INTERNATIONAL ARBITRATION UNDER THE TREATY IS REGARDED AS A TOOL OF LAST RESORT AND IS NOT VERY PRACTICAL FOR SOLVING EVERYDAY PROBLEMS THAT BUSINESSES CONTINUALLY FACE.

A.5 PERFORMANCE REQUIREMENTS/INCENTIVES

PERFORMANCE REQUIREMENTS:
THERE ARE NO KNOWN CASES OF PERFORMANCE REQUIREMENTS BEING IMPOSED ON FOREIGN INVESTORS IN UKRAINE.

INVESTMENT INCENTIVES:
UKRAINE MODIFIED ITS FOREIGN INVESTMENT LAW OF 1996 AND LAW OF INVESTMENT ACTIVITY OF 1992 SEVERAL TIMES, REMOVING CERTAIN TAX BREAKS PREVIOUSLY ACCORDED FOREIGN INVESTORS AND EQUALIZING TAX TREATMENT OF FOREIGN AND DOMESTIC INVESTORS. FOREIGN INVESTORS MAY STILL BE EXEMPT FROM CUSTOMS DUTIES FOR IN-KIND CONTRIBUTIONS OF FIXED ASSETS IMPORTED INTO UKRAINE FOR THE COMPANY'S CHARTER FUND, ALTHOUGH THE STATUS OF THIS EXEMPTION IS STILL UNCLEAR FOLLOWING A FEBRUARY 2000 LAW THAT CANCELLED TAX PRIVILEGES FOR FOREIGN JOINT VENTURES. SOME RESTRICTIONS APPLY, HOWEVER, AND IMPORT DUTIES MUST BE PAID IF THE ENTERPRISE SELLS, TRANSFERS, OR OTHERWISE DISPOSES OF THE CONTRIBUTED PROPERTY FOR ANY REASON.

VISA/WORK PERMIT REQUIREMENTS:
BUSINESS PEOPLE CAN NO LONGER EXTEND THEIR VISAS WHILE IN UKRAINE. AMERICANS ARE EXEMPT FROM HAVING TO RETURN TO THE UNITED STATES -- THEY CAN PICK UP A VISA AT ANY UKRAINIAN EMBASSY OUTSIDE OF UKRAINE -- BUT THEY STILL HAVE TO LEAVE UKRAINE TO RENEW. MOST GO TO POLAND, GERMANY OR THE CZECH REPUBLIC. NEW REQUIREMENTS FOR WORK PERMITS HAVE AFFECTED SOME AMERICANS. ALL FOREIGNERS -- EXCEPT THOSE WITH PERMANENT RESIDENCY STATUS -- MUST HAVE A WORK PERMIT TO WORK IN UKRAINE. IN PRACTICE, HOWEVER, THE GOU IS NOT REQUIRING WORK PERMITS FOR THOSE AMERICANS REPRESENTING FOREIGN COMPANIES. AMERICANS EMPLOYED BY LOCAL EMPLOYERS ARE BEING REQUIRED TO OBTAIN PERMITS.

A.6 RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

THE CONSTITUTION OF UKRAINE (1996) GUARANTEES THE RIGHT TO PRIVATE OWNERSHIP, INCLUDING THE RIGHT TO OWN LAND. IN ADDITION, UKRAINE'S LAW ON OWNERSHIP, WHICH WAS ONE OF THE COUNTRY'S FIRST MAJOR PARLIAMENTARY MEASURES, SPECIFICALLY RECOGNIZES PRIVATE OWNERSHIP AND INCLUDES UKRAINIAN RESIDENTS, FOREIGN INDIVIDUALS, AND FOREIGN LEGAL ENTITIES AMONG THOSE ENTITIES ABLE TO OWN PROPERTY IN UKRAINE. MOREOVER, THE LAW PERMITS OWNERS OF PROPERTY (INCLUDING FOREIGN INVESTORS AND

JOINT VENTURES) TO USE SUCH PROPERTY FOR COMMERCIAL PURPOSES, TO LEASE PROPERTY, AND TO KEEP THE REVENUES, PROFITS, AND PRODUCTION DERIVED FROM ITS USE. THE LAW ON OWNERSHIP DOES NOT, HOWEVER, ESTABLISH A COMPREHENSIVE REGIME REGULATING THE RIGHTS OF OWNERSHIP AND THE MECHANISMS FOR THEIR TRANSFER. SOME DIFFICULTIES HAVE ARISEN OVER FOREIGN ACQUISITION OF MAJORITY CONTROL OF ENTERPRISES, WITH THE GOVERNMENT OR THE CURRENT MANAGEMENT CONTINUING TO EXERCISE EFFECTIVE CONTROL OR VETO POWER OVER COMPANY DECISIONS.

THE LAND CODE OF UKRAINE, ADOPTED IN 1992, REGULATES THE OWNERSHIP, USE AND DISPOSITION OF RIGHTS AND INTERESTS IN LAND. THE CODE WAS ADOPTED FOUR YEARS BEFORE THE CONSTITUTION (1996) AND IS INCONSISTENT WITH IT IN SOME OF ITS PROVISIONS. ALTHOUGH THE LAND CODE FACILITATED WIDESPREAD PRIVATE OWNERSHIP OF RESIDENTIAL AND DACHA PLOTS, THE RIGHT TO OWN LAND IS STILL SUBJECT TO SUBSTANTIAL LIMITATION.

ONLY CITIZENS OF UKRAINE MAY OWN PRIVATE LAND, AND ONLY FOR PRIVATE RESIDENCES OR AGRICULTURAL USE. THE LAND CODE DOES NOT PERMIT LEGAL ENTITIES -- REGARDLESS OF WHETHER THEY ARE UKRAINIAN COMPANIES OR FOREIGN ENTITIES -- TO OWN LAND IN UKRAINE. (UKRAINIAN AGRICULTURAL COMPANIES ARE EXEMPT FROM THIS RESTRICTION). THE LAND CODE ALSO PROHIBITS OWNERSHIP OF LAND BY FOREIGNERS AND ONLY PROVIDES FOR THEIR RIGHT TO THE USE AND LEASE OF THE LAND. ALTHOUGH IN DIRECT CONTRADICTION OF THE LAND CODE, SUBSEQUENT PRESIDENTIAL AND CABINET OF MINISTERS' DECREES HAVE OPENED THE WAY FOR LEGAL ENTITIES TO OWN LAND. SINCE THE ADOPTION OF THE DECREES, MANY LEGAL ENTITIES HAVE OBTAINED AND REGISTERED PRIVATE OWNERSHIP TO LAND.

ON JULY 6, A DRAFT LAND CODE PASSED A FIRST READING. IF ENACTED, THE NEW LAND CODE WOULD PROVIDE THE POSSIBILITY FOR FOREIGNERS TO PURCHASE LAND TO DO BUSINESS IN CITIES AND TOWNS. HOWEVER, THIS WOULD NOT APPLY TO AGRICULTURAL LANDS.

----- A.7 PROTECTION OF PROPERTY RIGHTS -----

MORTGAGE:

ACCORDING TO CURRENT LEGISLATION, ONLY LAND PLOTS AND PERENNIAL PLANTATIONS PRIVATELY OWNED BY INDIVIDUALS MAY BE MORTGAGED. PARLIAMENT HAS NOT FINALIZED A MORTGAGE LAW THAT WOULD ALLOW AGRICULTURAL ENTERPRISES TO RECEIVE PRIVATE LOANS. NORMATIVE ACTS REGULATING LAND RELATIONS (SPECIFICALLY, THE LAND CODE) NEED TO BE UPDATED, LAND VALUE ASSESSMENT AND LAND OWNERSHIP REGISTRATION NEED TO BE REGULATED, AND COURT PROCEDURES TO DEAL WITH FORECLOSURES ON MORTGAGES NEED TO BE ESTABLISHED. USAID HAS BEEN INSTRUMENTAL IN THE CREATION OF A PLEDGE REGISTRY, THE FIRST OF ITS KIND IN THE FORMER SOVIET UNION, WHICH APPLIES TO INDIVIDUALS' OBLIGATIONS WITH REGARDS TO MOVABLE PROPERTY AND TAX LIENS. THE REGISTRY IS NATIONWIDE, PROVIDING A MORE TRANSPARENT LENDING MARKET FOR PERSONAL PROPERTY.

ON JUNE 15, 1999 THE PRESIDENT SIGNED AN EDICT ON MORTGAGE TO DEVELOP A PROCEDURE FOR MORTGAGE CONVEYANCE TO INCLUDE AGRICULTURAL LANDS. CURRENTLY, MOST URBAN AND RURAL LAND IS STILL NOT TITLED AND, THEREFORE, MAY NOT BE USED FOR COLLATERAL. WHILE THE USE OF MORTGAGES IN UKRAINE REMAINS LIMITED BY THE SCARCITY OF ISSUED TITLES AND LIMITS ON LENDING ACTIVITY, MORTGAGES HAVE BEEN SECURED BY APARTMENTS, HOUSES, OFFICE BUILDINGS, OTHER TYPES OF BUILDINGS, AND DACHA PLOTS.

INTERNATIONAL IPR AGREEMENTS:
UKRAINE HAS ALREADY ESTABLISHED A COMPREHENSIVE LEGISLATIVE SYSTEM FOR THE PROTECTION OF INTELLECTUAL PROPERTY RIGHTS. AS A SUCCESSOR STATE TO THE FORMER SOVIET UNION, UKRAINE IS A MEMBER OF THE UNIVERSAL COPYRIGHT CONVENTION (MAY 1973), AND THE CONVENTION ESTABLISHING THE WORLD INTELLECTUAL PROPERTY ORGANIZATION - WIPO (APRIL 1970). AFTER INDEPENDENCE, UKRAINE BECAME A SIGNATORY TO A NUMBER OF KEY INTERNATIONAL AGREEMENTS.

PROTECTION OF INTELLECTUAL PROPERTY:
ALTHOUGH THESE INTELLECTUAL PROPERTY RIGHTS (IPR) LAWS ARE IN PLACE, UKRAINE WAS PLACED ON THE SPECIAL 301 PRIORITY WATCH LIST IN 1999 AND 2000 BECAUSE COPYRIGHT PIRACY IN UKRAINE IS EXTENSIVE AND ENFORCEMENT IS MINIMAL, CAUSING SUBSTANTIAL LOSSES TO U.S. INDUSTRY. UKRAINIAN LEGISLATION HAS INADEQUATE CRIMINAL

INFRINGEMENT. IN ADDITION, PIRATE FACTORIES PRODUCING ELECTRONIC MEDIA DISPLACED FROM BULGARIA HAVE FOUND A HOME IN UKRAINE. THIS WAS ONE OF THE CONTRIBUTING FACTORS IN THE DECISION TO MOVE UKRAINE TO THE PRIORITY WATCH LIST, AND TO REVIEW UKRAINE'S POSSIBLE CLASSIFICATION AS A FOREIGN PRIORITY COUNTRY.

TO ADDRESS THIS PROBLEM, UKRAINE IS IN THE PROCESS OF CREATING AN ANTI-PIRACY COMMITTEE WITH AUTHORITY TO CONDUCT UNANNOUNCED SEARCHES AND TO CONFISCATE PIRATED GOODS. ADMINISTRATIVE LIABILITY, IN THE FORM OF FINES AND/OR CONFISCATION OF PRODUCTS, EQUIPMENT, AND RAW MATERIALS, MAY BE SOUGHT IN THE EVENT THAT AN INFRINGEMENT OF INTELLECTUAL PROPERTY RIGHTS IS ACCOMPANIED BY UNFAIR COMPETITION ON THE PART OF THE INFRINGER. HOWEVER, FINES ARE INSIGNIFICANT, AND THE LAW DOES NOT GIVE THE POLICE OR CUSTOMS THE AUTHORITY TO CONDUCT SEIZURE OR EX PARTE SEARCHES. COMPOUNDING THE SITUATION, THE JUDGES UNDERSTAND LITTLE OR NOTHING ABOUT IPR, SHOULD A CASE MAKE IT TO COURT. UKRAINE IS ATTEMPTING TO REMEDY THESE SHORTCOMINGS, BUT EXPECTS THAT RESOLUTION WILL TAKE A LONG TIME.

ALTHOUGH UKRAINE HAS TAKEN SOME STEPS TO IMPROVE ITS IPR REGIME IN ACCORDANCE WITH ITS TWO-YEAR ACTION PLAN TO MAKE ITS IPR LEGISLATION WTO-COMPLIANT, UKRAINE STILL DOES NOT PROVIDE RETROACTIVE PROTECTION FOR SOUND RECORDINGS OR FOR WORKS CREATED BEFORE 1973. ALTHOUGH UKRAINE SIGNED THE PHONOGRAM CONVENTION IN JUNE 1999, IT PROVIDED RETROACTIVE PROTECTION ONLY FOR

DOMESTIC WORKS. BECAUSE UKRAINE DOES NOT ENFORCE IPR LAWS AND INTERNATIONAL AGREEMENTS, THERE IS STILL NO ADEQUATE PROTECTION FOR INTELLECTUAL PROPERTY. UKRAINE STILL HAS CONSIDERABLE WORK TO DO BEFORE ITS IPR LEGISLATION IS TRIPS-COMPLIANT. SINCE IT IS NOT YET IN THE WTO, IT IS TOO EARLY TO SPEAK OF IMPLEMENTING THE WTO TRIPS AGREEMENT.

IN JUNE 2000, THE U.S. AND UKRAINE ADOPTED A JOINT ACTION PLAN FOR COMBATTING COPYRIGHT PIRACY, AND UKRAINE SUSPENDED THE OPERATIONS OF FACTORIES PRODUCING UNLICENSED ELECTRONIC MEDIA. ON JULY 31, 2000, PRESIDENT KUCHMA ISSUED A DECREE ORDERING THE GOVERNMENT TO DEVELOP A PROJECT FOR THE DEVELOPMENT OF THE INTERNET IN UKRAINE AND PROVIDE SCIENTIFIC, CULTURAL, AND EDUCATIONAL INSTITUTIONS INTERNET CONNECTIONS. THE DECREE ALSO REQUIRES THE GOVERNMENT TO DEVELOP A BILL ON PROTECTION OF INTELLECTUAL PROPERTY AND COPYRIGHT AND THE USE OF ELECTRONIC DOCUMENTATION AND DIGITAL SIGNATURES. THE GOU WILL ALSO BE REQUIRED TO DEVELOP A BILL SETTING FORTH THE CONDITIONS FOR DEVELOPMENT AND ENTREPRENEURSHIP IN THE ELECTRONIC SPHERE.

A.8 TRANSPARENCY OF THE REGULATORY SYSTEM

TRANSPARENCY OF REGULATORY POLICIES:
FOREIGN TRADE REGULATIONS ARE CONTRADICTORY, AS THE GOU DECLARES PLANS TO LIBERALIZE TRADE AND HOPES OF WTO ACCESSION WHILE PASSING LEGISLATION -- SUCH AS THE SUNFLOWER SEED TARIFF THAT ENSURES SUPPLIES OF SEEDS TO DOMESTIC OIL EXTRACTION PLANTS BY MAKING EXPORTS UNPROFITABLE -- AUGMENTING PROTECTIONISM.

IMPORT REGULATION: NOT ONLY ARE IMPORT DUTIES CHANGED THE FREQUENTLY (40 TIMES BETWEEN 1998 AND 1999), BUT SEVERAL BODIES HAVE THE AUTHORITY TO SET DUTY RATES. FURTHER, A 1998 LAW PERMITS ALL ENTERPRISES TO REQUEST STATE AUTHORITIES TO IMPLEMENT PROTECTIONIST MEASURES IF IMPORTS THREATEN "SIGNIFICANT HARM TO DOMESTIC PRODUCERS."

TAX POLICIES:
IN A 1999 SURVEY FINANCED BY USAID, BUSINESSES OF ALL SIZES IDENTIFIED THE EXISTING TAX SYSTEM AS THE SINGLE MOST DIFFICULT PROBLEM THEY FACED. THE GOU HAS SUBMITTED A REVISED VERSION OF ITS FIRST COMPREHENSIVE TAX CODE TO PARLIAMENT, WHICH THE PARLIAMENT PASSED IN FIRST READING ON JULY 13, 2000. THE DRAFT TAX CODE BILL LISTS TAXES, DUTIES AND DUES, SETS TAX RATES, DEFINES BASIC CONCEPTS OF TAX RELATIONS AND TAX CALCULATION PROCEDURES. THE DRAFT WOULD REDUCE EXISTING INCOME TAX RATES AND WOULD ELIMINATE SOME TAXES AND DUES LIKE CHORNOBYL DUES, MANDATORY SOCIAL INSURANCE PAYMENT AND MANDATORY STATE PENSION INSURANCE PAYMENT, INNOVATION FUND DUE, TRADE PATENT FEE, AND THE FIXED AGRICULTURAL TAX. THE GOVERNMENT HOPES FOR FINAL PASSAGE DURING 2000. TAXATION OF SMALL AND MEDIUM BUSINESSES HAS ALREADY BEEN SIMPLIFIED SOMEWHAT.

IN THE MEANTIME, HOWEVER, BUSINESSES CONTINUE TO CITE UKRAINE'S TAX REGIME -- WITH ITS HODGE-PODGE OF REGULATIONS, HARASSMENT BY TAX INSPECTORS, FREQUENT LEGISLATIVE CHANGES AND THE SHEER NUMBER OF DIFFERENT TAXES -- AS HINDERING THE DEVELOPMENT OF THEIR ENTERPRISES. FOR EXAMPLE, FOREIGN INVESTORS -- PARTICULARLY EXPORTERS AND COMPANIES IN THE START-UP/EXPANSION PHASE -- HAVE A PROBLEM RECEIVING IN A TIMELY MANNER THE VALUE-ADDED TAX (VAT) REFUNDS TO WHICH COMPANIES ARE ENTITLED. THE BEST ILLUSTRATIVE OF THE TAX SYSTEM'S PROBLEMS IS A REGULATION KNOWN AS 'KARTOTEKA II,' WHICH ALLOWS TAX AUTHORITIES TO FREEZE THE BANK ACCOUNT OF ANY ENTITY WHICH THEY BELIEVE TO OWE TAXES -- WITHOUT PRIOR JUDICIAL PROCEEDINGS. MOREOVER, NOT ONLY HAS THE GOU CHANGED TAX LAWS FREQUENTLY -- MAKING COMPLIANCE DIFFICULT -- BUT ALSO RETROACTIVELY.

BUREAUCRATIC PROCEDURES:

SEVERAL LEGISLATIVE CHANGES AIMED AT SIMPLIFYING BUSINESS LICENSING FOR ENTERPRISES AND REGISTRATION PROCEDURES AND REDUCING THE NUMBER OF INSPECTIONS WERE ALREADY INTRODUCED IN LATE 1997 AND 1998. WHILE THE TIME AND COSTS RELATED TO REGISTRATION OF BUSINESS ENTITIES HAVE BEEN REDUCED, THE GOU STILL REQUIRES ENTERPRISES TO OBTAIN NUMEROUS PERMITS AND LICENSES TO CONDUCT BUSINESS AND ENGAGE IN FOREIGN TRADE. THE BUREAUCRATIC PROCEDURES FOR OBTAINING VARIOUS PERMITS, LICENSES, ETC., ARE COMPLEX AND UNPREDICTABLE, BURDENSOME AND DUPLICATIVE; THEY CREATE CONFUSION, SIGNIFICANTLY RAISE THE COST OF DOING BUSINESS IN UKRAINE, PROVIDE OPPORTUNITIES FOR CORRUPTION, AND DRIVE MUCH ACTIVITY INTO THE BURGEONING SHADOW ECONOMY.

LICENSING:

A NEW LAW "ON LICENSING," EFFECTIVE SEPTEMBER 1, WAS SIGNED ON JUNE 1, 2000. THE LAW REDUCED THE LIST OF ENTREPRENEURIAL ACTIVITIES SUBJECT TO LICENSING TO 60, ELIMINATING GROUPS THAT INCLUDED MANY SUBACTIVITIES, WITH THE RESULT THAT SIGNIFICANTLY FEWER ACTIVITIES ARE SUBJECT TO LICENSING REQUIREMENTS AND MANY SMALL BUSINESS ACTIVITIES ARE NO LONGER LICENSED AT ALL. THE NEW LICENSING LAW ALSO MADE LICENSING PROCEDURES MORE TRANSPARENT AND SIMPLIFIED. THE NUMBER OF DOCUMENTS REQUIRED TO BE SUBMITTED WITH AN APPLICATION WAS REDUCED AND A DECISION ON GRANTING OR REJECTING A LICENSE APPLICATION MUST BE ISSUED WITHIN TEN DAYS. FINALLY, THE LICENSE CONDITIONS, WHICH UNDER PRIOR LAW WERE A CONDITION PRECEDENT TO ISSUING A LICENSE ARE NOW CONDITIONS SUBSEQUENT IN MOST CASES. IN OTHER WORDS, THE LICENSE APPLICATION MUST BE GRANTED IF THE APPLICATION IS IN ORDER, AND VIOLATION OF LICENSE CONDITIONS (ESTABLISHED BY SPECIAL BODIES WITHIN THE CORRESPONDING MINISTRIES) IS A BASIS FOR REVOCATION OF THE LICENSE.

RULEMAKING:

A CABINET RESOLUTION ON PROCEDURES FOR ADOPTION OF REGULATORY ACTS, SIGNED 31 JULY 2000, PROVIDED FOR NEW

PROCEDURES FOR APPROVING DRAFT REGULATIONS RELATING TO ENTREPRENEURIAL ACTIVITY BY SCRPEA (THE STATE COMMITTEE FOR REGULATORY POLICY AND ENTREPRENEURIAL ACTIVITY), REGULATORY COST-BENEFIT ANALYSIS, NOTICE AND COMMENT PERIOD FOR REGULATIONS WHICH "SIGNIFICANTLY INFLUENCE THE MARKET ENVIRONMENT," AND TIGHT DEADLINES FOR APPEALING SCRPEA DECISIONS.

INSPECTIONS:

PREVIOUSLY, ANY GOVERNMENT MONITORING ENTITY HAD THE POWER TO INSPECT ANY ENTERPRISE, AT ANY TIME, FOR ALMOST ANY REASON AND WITHOUT PRIOR NOTICE. A 1998 PRESIDENTIAL DECREE RESTRICTED ENTITIES AUTHORIZED TO CONDUCT FINANCIAL INSPECTIONS TO ONE PLANNED INSPECTION PER YEAR AND REQUIRED AT LEAST TEN DAYS NOTICE. WHILE INSPECTIONS OF ALL KINDS HAVE DECREASED SIGNIFICANTLY IN THE LAST TWO YEARS, NON-FINANCIAL INSPECTIONS CONTINUE TO BE USED AS A MEAN OF HARASSMENT AND REMAIN A MAJOR IMPEDIMENT TO BUSINESS OPERATION. THE 1999 USAID SURVEY FOUND THAT IN 1998 BUSINESSES FACED AN AVERAGE OF 21.2 INSPECTIONS PER YEAR (LARGE ENTERPRISES WERE SUBJECT TO AN AVERAGE OF 38.72).

CERTIFICATION/HEALTH AND SAFETY POLICIES:

THE CABINET OF MINISTERS HAS BEEN REVIEWING TWO NEW LAWS THAT WOULD RADICALLY REFORM THE CERTIFICATION SYSTEM. ALTHOUGH THESE SIGNIFICANT EFFORTS ARE UNDER WAY, FOREIGN INVESTORS STILL REGARD UKRAINE'S PRODUCTION CERTIFICATION SYSTEM AS ONE OF THE MOST SERIOUS OBSTACLES TO TRADE, INVESTMENT, AND ONGOING BUSINESS, AND MANY CONSIDER UKRAINE'S SYSTEM TO BE FAR MORE DIFFICULT THAN RUSSIA'S. THE NUMEROUS CERTIFICATION BODIES AROUND UKRAINE EFFECTIVELY OPERATE AS INDEPENDENT ENTITIES, OFTEN WITH MONOPOLISTIC POSITIONS. FURTHERMORE, THESE AGENCIES WORK ON A PRIVATE PROFIT BASIS, RETAINING 80 PERCENT OF THE PROFITS DERIVED FROM CERTIFICATION FEES AND RETURNING ONLY 20 PERCENT TO THE STATE. PRICING RULES EXIST, BUT THEY ARE TOO VAGUE TO BE ENFORCED, AND THE STATE STANDARDS COMMITTEE (THE CENTRAL GOVERNING BODY) DOES NOT HAVE PROPER SUPERVISION OVER THE VARIOUS BODIES. MUCH OF THE LEGISLATIVE AND INTERPRETIVE WORK IS LEFT TO DIFFERENT AGENCIES, WITH LITTLE OR NO COORDINATION. FOR MANY PRODUCTS, MULTIPLE AGENCIES ARE INVOLVED IN THE CERTIFICATION PROCESS, AND OFTEN MULTIPLE CERTIFICATES ARE REQUIRED. LOCAL, REGIONAL AND MUNICIPAL AUTHORITIES OFTEN REQUIRE ADDITIONAL DOCUMENTATION BEYOND THAT REQUIRED BY CENTRAL AGENCIES. HOWEVER, THE NATIONAL GOVERNMENT HAS STATED ITS INTENTION TO INCREASE RECOGNITION AND USE OF INTERNATIONAL AND EU STANDARDS.

A.9 CAPITAL MARKETS AND PORTFOLIO INVESTMENT

LEGAL, REGULATORY, TAX AND ACCOUNTING POLICIES ARE NEITHER TRANSPARENT NOR FULLY CONSISTENT WITH INTERNATIONAL NORMS. THE REFORM PROCESS IS ADVANCING, BUT SUCH POLICIES REMAIN UNDERDEVELOPED. FOR EXAMPLE, INTERNATIONAL ACCOUNTING STANDARDS HAVE BEEN

COMPLETELY ADOPTED ONLY IN THE BANKING SECTOR; ALTHOUGH, AS A RESULT OF A NEW LAW THAT WENT INTO EFFECT JANUARY 1, 2000, UKRAINE'S ACCOUNTING STANDARDS ARE NO LONGER INCONSISTENT WITH INTERNATIONAL ACCOUNTING STANDARDS. MANY FOREIGN INVESTORS STILL KEEP DOUBLE-ENTRY BOOKS: ONE WITH UKRAINIAN ACCOUNTING STANDARDS AND ONE WITH INTERNATIONAL STANDARDS FOR USE BY THE PARENT COMPANY.

CAPITAL MARKETS:

THOUGH PROGRESS HAS BEEN MADE, THE DAY-TO-DAY WORKING OF THE SECURITY MARKET LAGS BEHIND INTERNATIONAL STANDARDS AND BEHIND THE PROGRESS ACHIEVED IN THE UKRAINIAN BANKING SECTOR. IN JUNE 1991, THE PARLIAMENT OF THE THEN-UKRAINIAN SOVIET SOCIALIST REPUBLIC APPROVED A LAW ON SECURITIES AND THE STOCK MARKET, WHICH MARKED THE BIRTH OF A UKRAINIAN CAPITAL MARKET. THE LAW OUTLINED THE EXISTENCE OF THE FOLLOWING TYPES OF SECURITIES: STOCKS (REGISTERED, BEARER, PREFERRED, AND COMMON), GOVERNMENT SECURITIES, GENERAL OBLIGATIONS/BONDS, CORPORATE BONDS, SAVINGS CERTIFICATES, AND PROMISSORY NOTES. LATER DECREES AND AMENDMENTS ADOPTED FROM 1991 TO 1995 ADDED BOND COUPONS, LOAN CERTIFICATES, BANK ORDERS, SAVINGS BOOKS, AND PRIVATIZATION CERTIFICATES. IN JUNE 1995 THE STATE SECURITIES AND STOCK MARKET COMMISSION WAS ESTABLISHED, HAVING ADMINISTRATIVE AND DISCIPLINARY POWERS OVER ISSUERS, INVESTMENT FUNDS, BROKERS AND TRADING ACTIVITIES. A LAW ON A DEPOSITORY SYSTEM, REGULATING FINANCIAL INFRASTRUCTURE AND TRADING INSTITUTIONS WAS ADDED IN DECEMBER 1997.

ABOUT 80 PERCENT OF THE REPORTED SECONDARY MARKET ACTIVITY IS CONDUCTED THROUGH THE NATIONWIDE ELECTRONIC TRADING SYSTEM FOR THE SELF-REGULATORY ORGANIZATION OR "PFTS" (THE UKRAINIAN BROKER/DEALER ASSOCIATION AND OVER-THE-COUNTER TRADING SYSTEM). OTHER MARKETS EXIST, INCLUDING THE UKRAINIAN STOCK EXCHANGE, THE DONETSK EXCHANGE AND THE CRIMEAN STOCK EXCHANGE, BUT MOST TRADING (ABOUT 85 PERCENT) IS NOT REPORTED TO ANY LICENSED MARKET (PFTS OR EXCHANGE). UKRAINE'S STOCK MARKET HAS BEGUN TO GAIN BACK MANY OF THE LOSSES SUFFERED FROM OVERFLOW FROM THE 1997 ASIAN AND 1998 RUSSIAN FINANCIAL CRISES. A REVIEW OF UKRAINE'S STOCK EXCHANGE PERFORMANCE IN THE FIRST HALF OF 2000 SHOWED THAT TRADING SHARES OF PRIVATIZED ENTERPRISES ACCOUNTED FOR 74 PERCENT OF THE TOTAL VALUE OF TRANSACTIONS, WHILE THE SECONDARY MARKET TRADED ACCOUNTED FOR ONLY 9.6 PERCENT, THE SAME READING AS FOR 1999.

INVESTORS IN UKRAINE CONTINUE TO FACE NUMEROUS PROBLEMS, INCLUDING LOW MARKET CONFIDENCE, HIGH MACRO-ECONOMIC RISK, DEVELOPING ACCOUNTING STANDARDS, LACK OF ACCURATE COMPANY INFORMATION, AND INADEQUATE PROTECTION OF MINORITY SHAREHOLDERS' RIGHTS. TO DATE, AN EFFECTIVE PORTFOLIO INVESTMENT REGULATORY SYSTEM HAS NOT BEEN ESTABLISHED.

BANKING SYSTEM:

THE UKRAINIAN BANKING SECTOR IS IN THE EARLY STAGES OF

DEVELOPMENT. NEVERTHELESS, IN CONTRAST TO MANY OTHER SECTORS OF THE UKRAINIAN ECONOMY, THERE HAS BEEN REAL PROGRESS IN STRUCTURAL REFORM OVER THE LAST SEVERAL YEARS. THE DEVELOPMENT OF A SOUND MARKET-ORIENTED BANKING SYSTEM HAS BEEN AN IMPORTANT AREA OF EMPHASIS

OF INTERNATIONAL ASSISTANCE, INCLUDING FROM THE U.S. AS OF APRIL 2000, THERE WERE 177 BANKS REGISTERED IN UKRAINE, BUT MOST OF THEM ARE VERY SMALL WITH SEVEN MAJOR BANKS COMPRISING MORE THAN FIFTY PERCENT OF THE TOTAL ASSETS OF THE BANKING SYSTEM. THE NATIONAL BANK OF UKRAINE (NBU) HAS BOTH THE SUPERVISORY AND MONETARY POWERS OF A CENTRAL BANK.

SO FAR THE CHANGES IN THE NBU MANAGEMENT (FORMER

EXTERNAL POLICIES, WITH THE CURRENT GOVERNOR STELMAKH CONTINUING THE REFORM COURSE OF HIS PREDECESSOR. AS A RESULT OF STRICT SUPERVISORY POLICIES INSTITUTED SINCE 1998 THE STILL DEVELOPING BANKING SECTOR IS NOW SHOWING SIGNS OF STABILITY.

ALL UKRAINIAN BANKS FORMALLY CONVERTED TO INTERNATIONAL ACCOUNTING STANDARDS ON JANUARY 1, 1998. THE NATIONAL BANK HAS PASSED A NUMBER OF NEW REGULATIONS, SUCH AS LOAN-LOSS PROVISIONING, LOAN CLASSIFICATION AND LENDING TO INSIDERS AND RELATED PARTIES, WHICH ARE IN LINE WITH WESTERN PRACTICE. FOREIGN LICENSED BANKS MAY ENGAGE IN ALL OF THE SAME ACTIVITIES AS DOMESTIC BANKS AND THERE IS NO CEILING ON THEIR PARTICIPATION IN THE BANKING SYSTEM.

HOWEVER, THERE ARE ALSO IMPORTANT SHORTCOMINGS. THE LEGAL INFRASTRUCTURE CONTINUES TO BE SADLY DEFICIENT. FOR SEVERAL YEARS, THE PARLIAMENT HAS HELD UP PASSAGE OF VITAL LAWS THAT WOULD GIVE THE NBU THE AUTHORITY IT NEEDS TO DEAL WITH BANKS IN TROUBLE. IN FACT, THE NBU COMPLAINS THAT A NEW LAW ON THE NATIONAL BANK OF UKRAINE, PASSED IN SPRING OF 1999 LIMITS THE NBU'S RIGHT AND MEANS TO SANCTION BANKS FOR NOT MEETING MANDATORY RESERVE REQUIREMENTS.

GIVEN THE TENUOUS ECONOMIC ENVIRONMENT AND THE STILL CONTINUING DIRECTED LENDING BY BANKS AT THE GOVERNMENT'S BEHEST, THERE IS A LARGE OVERHANG OF PROBLEM LOANS. FOR SOME OF THE LARGER BANKS IN UKRAINE THE PROBLEM IS ACUTE. THE NBU, TOGETHER WITH THE IMF, HAS IDENTIFIED A GROUP OF THE SEVEN LARGEST BANKS IN THE COUNTRY AS A POTENTIAL SOURCE OF SYSTEMIC RISK. TOGETHER WITH 35 FOREIGN BANK INSPECTORS (FROM EIGHT COUNTRIES, INCLUDING THE U.S.), FULL-SCOPE SUPERVISORY EXAMS WERE COMPLETED AT THESE BANKS AT THE END OF 1998. THE NBU THEN SIGNED AGREEMENTS (COMMITMENT LETTERS) WITH EACH OF THESE BANKS IN WHICH THE BANKS AGREED TO ADOPT MEASURES TO RECTIFY IDENTIFIED WEAKNESSES. IN 1999 A TWO-YEAR PROGRAM OF RESTRUCTURING THESE BANKS HAS STARTED BASED ON THE "COMMITMENT LETTERS" WHICH INCLUDES TECHNICAL ASSISTANCE BY USAID AND EU-TACIS IN UPGRADING SYSTEMS AND MANAGEMENT PROCEDURES.

PROBLEMS STILL PERSIST. ALTHOUGH A NUMBER OF MEASURES WERE INTRODUCED TO MAKE IT EASIER TO IDENTIFY BAD LOANS AND AVOID POSSIBLE CRISES, MANY BANKS STILL HAVE A LARGE NUMBER OF BAD LOANS. THEY ALSO CONTINUE TO LACK SUFFICIENT RESOURCES SUCH AS HOUSEHOLD DEPOSITS TO PROVIDE LOANS AND SO ARE NOT A MAJOR SOURCE OF INVESTMENT FUNDS. LOANS THAT ARE MADE ARE SHORT-TERM AND AT HIGH INTEREST RATES, SINCE REFINANCING IS DEPENDENT ON THE HIGH SHORT-TERM INTEREST RATES SET BY THE NATIONAL BANK IN MANAGING THE MONEY SUPPLY.

UKRAINIAN FINANCIAL MARKETS DO NOT SEEM TO HAVE SUCH COMPLEX "CROSS-SHAREHOLDING" AND "STABLE SHAREHOLDER" ARRANGEMENTS AS ARE FOUND IN ASIAN MARKETS. HOWEVER, FOREIGN INVESTMENT THROUGH MERGERS AND ACQUISITIONS IS RESTRICTED IN UKRAINE, BUT FOR OTHER REASONS, SUCH AS UNDERDEVELOPED LEGISLATION AND UNFAIR TREATMENT TOWARD MINORITY SHAREHOLDERS BY COMPANY INSIDERS.

PRIVATE FIRMS' DEFENSES TO PREVENT HOSTILE TAKEOVERS ARE EQUALLY EFFECTIVE AGAINST ALL OUTSIDERS, FOREIGN AND DOMESTIC. THE LACK OF RIGHTS EXTENDED TO MINORITY SHAREHOLDERS SERVES TO PREVENT CHANGES OF OWNERSHIP. EXAMPLES OF SHAREHOLDER RIGHTS ABUSES INCLUDE THE FOLLOWING: LIMITED DISCLOSURE, CAPITAL RESTRUCTURING WITHOUT SHAREHOLDERS' CONSENT, AND SHAREHOLDER VOTING FRAUD.

UKRAINE CONTINUES TO REMAIN A CASH ECONOMY, BUT A FEW BANKS HAVE STARTED ISSUING CREDIT CARDS (VISA AND MASTERCARD) AND A NUMBER OF LOCAL BUSINESSES HAVE BEGUN ACCEPTING CREDIT CARDS. IN ADDITION, AUTOMATIC TELLER MACHINES CONTINUE TO SPREAD THROUGHOUT THE COUNTRY.

A.10 POLITICAL VIOLENCE

POLITICAL DEMONSTRATIONS AND DISAGREEMENTS IN UKRAINE RARELY INVOLVE VIOLENCE AND ARE GENERALLY RESOLVED PEACEFULLY. THE LIKELIHOOD OF WIDESPREAD POLITICALLY INSPIRED VIOLENCE THAT WOULD AFFECT FOREIGN PROPERTY INTERESTS IS LOW.

A11 CORRUPTION

IN THE MOST RECENT ANNUAL SURVEY CONDUCTED BY THE CORRUPTION WATCHDOG GROUP TRANSPARENCY INTERNATIONAL, UKRAINE'S PUBLIC OFFICIALS AND POLITICIANS WERE PERCEIVED AS THE TWENTY-SECOND MOST CORRUPT OF 99 COUNTRIES EVALUATED. INDEED, CORRUPTION PERVADES ALL LEVELS OF GOVERNMENT. UKRAINE IS NOT A SIGNATORY OF THE OECD CONVENTION ON COMMITTING BRIBERY. BOTH GIVING AND ACCEPTING A BRIBE ARE CRIMINALLY PUNISHABLE, AND SOME CORRUPT ACTS HAVE BEEN CRIMINALLY PROSECUTED. BUT MANY MORE THAT HAVE BEEN EXPOSED HAVE RESULTED IN LITTLE OR NO ACTION. THE RECENT PROSECUTION OF SOME HIGH-PROFILE POLITICIANS HAS RAISED THE QUESTION OF "SELECTIVE JUSTICE." MANY

ANTICORRUPTION CAMPAIGNS APPEAR TO BE POLITICALLY OR ECONOMICALLY MOTIVATED.

CORRUPTION ALSO PERMEATES MUCH OF UKRAINE'S CIVIL SERVICE AND REGULATORY SYSTEM. CONFLICT OF INTEREST IS A POORLY DEVELOPED CONCEPT, AND MANY OFFICIALS AND BUREAUCRATS RETAIN THEIR COMMERCIAL INTERESTS WHILE IN POWER. CORRUPTION CAN ALSO BE INSTITUTIONAL TO THE EXTENT THAT CERTAIN GOVERNMENT ENTITIES MAY OWN OR HAVE CLOSE TIES TO BUSINESSES THAT COMPETE WITH THOSE THAT THEY REGULATE. GOVERNMENT ENTITIES ALSO USE MEANS THAT ARE OFF THE BALANCE SHEET TO PAY FOR OPERATIONS AND EXPENSES NOT FUNDED BY THE STATE BUDGET. A COMPLICATED AND NON-TRANSPARENT REGULATORY SYSTEM HAS ALSO ENCOURAGED PETTY CORRUPTION AT ALL LEVELS OF GOVERNMENT. A PROFESSIONAL ADMINISTRATIVE CLASS IS DEVELOPING VERY SLOWLY, DUE IN PART TO THE LOW SALARIES OF SUCH PROFESSIONALS.

----- B. BILATERAL INVESTMENT AGREEMENTS -----

BILATERAL INVESTMENT AGREEMENTS:

THE BILATERAL INVESTMENT TREATY BETWEEN THE UNITED STATES AND UKRAINE ENTERED INTO FORCE ON NOVEMBER 16, 1996. THE FOLLOWING COUNTRIES HAVE ALSO SIGNED BILATERAL INVESTMENT AGREEMENTS WITH UKRAINE: ARMENIA (1994), BULGARIA (1994), CANADA (1994), THE PEOPLE'S REPUBLIC OF CHINA (1992), CROATIA (2000), CUBA (1995), THE CZECH REPUBLIC (1994), EGYPT (1992), ESTONIA (1995), FRANCE (1994), GERMANY (1993), GREECE (1994),

HUNGARY (1995), ISRAEL (1995), ITALY (1995), GEORGIA (1995), KAZAKHSTAN (1994), KYRGYZSTAN (1993), LATVIA (1997), LEBANON (2000), LITHUANIA (1994), MACEDONIA (2000), MOLDOVA (1995), MONGOLIA (1992), POLAND (1993), SLOVAKIA (1994), SLOVENIA (2000), SPAIN (2000), AND UZBEKISTAN (1993). THE AGREEMENT WITH CHINA HAS A FIVE-YEAR TERM, WHICH WAS AUTOMATICALLY EXTENDED. ALL OF THE OTHERS HAVE A TERM OF TEN OR MORE YEARS.

TAX ISSUES OF INTEREST TO U.S. INVESTORS:

THE U.S.-UKRAINE TAX TREATY WAS SIGNED IN 1994 AND APPROVED FOR RATIFICATION BY THE SENATE IN 1995. IT ENTERED INTO FORCE ON JUNE 5, 2000, AFTER BEING DELAYED FOR SEVERAL YEARS BECAUSE OF UKRAINE'S ADOPTION OF ANONYMOUS BANK ACCOUNTS. (IN JULY 1998, THESE ACCOUNTS WERE REPLACED WITH "CODED" BANK ACCOUNTS.)

----- C. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS -----

STATUS OF OPIC OPERATIONS IN UKRAINE:

THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) CURRENTLY PROVIDES FINANCING FOR PROJECTS IN UKRAINE AND OFFERS INSURANCE TO U.S. INVESTORS AGAINST THE RISKS OF EXPROPRIATION AND POLITICAL VIOLENCE IN UKRAINE. THE U.S.-UKRAINE OPIC AGREEMENT WAS SIGNED IN WASHINGTON ON MAY 6, 1992. OPIC HAS COMMITTED TO PROVIDE OVER USD 21 MILLION IN FINANCING TO PROJECTS

IN UKRAINE. OPIC IS CURRENTLY SUPPORTING TWO PROJECTS IN UKRAINE WITH INVESTMENT INSURANCE OF UP TO USD 5.4 MILLION. IN 1999, OPIC PAID COMPENSATION FOR AN EXPROPRIATION CLAIM IN UKRAINE. OPIC-ASSISTED INVESTMENT FUNDS HAVE SUPPORTED MORE THAN USD 64 MILLION OF INVESTMENTS IN UKRAINE.

OTHER INVESTMENT INSURANCE PROGRAMS:

THE U.S. EXPORT-IMPORT BANK IS OPERATING IN UKRAINE. THE MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA) HAS NO REPRESENTATION IN UKRAINE AND IS NOT ACTIVE THERE.

D. LABOR

LABOR AVAILABILITY:

UKRAINE HAS A WELL-EDUCATED AND SKILLED LABOR FORCE, WITH A NEARLY 100 PERCENT LITERACY RATE (98.6 PERCENT). ALTHOUGH THE OFFICIAL UNEMPLOYMENT LEVEL IS LOW (4.5 PERCENT AS OF APRIL 1, 2000), MOST EXPERTS AGREE THAT: (1) REPORTED UNEMPLOYMENT IS UNDERSTATED, (2) UNDEREMPLOYMENT AT STATE ENTERPRISES CONTINUES, AND (3) EMPLOYMENT IN THE INFORMAL SECTOR ACCOUNTS FOR A LARGE, BUT DIFFICULT TO MEASURE, SHARE OF THE TOTAL LABOR FORCE. WAGES IN UKRAINE REMAIN VERY LOW BY WESTERN STANDARDS. THE NOMINAL AVERAGE MONTHLY WAGE IN UKRAINE IN 1999 WAS UAH 177.52 (APPROXIMATELY USD 43), 15.7 PERCENT MORE THAN IN 1998. HOWEVER, BECAUSE OF THE DEVALUATION OF THE NATIONAL CURRENCY IN 1999, THE AVERAGE MONTHLY WAGE CONVERTED TO U.S. DOLLARS ACTUALLY FELL FROM USD 62.70 IN 1998 TO USD 48 IN 1999. REAL WAGES IN 1999 WERE 3.4 PERCENT MORE THAN IN 1998, BECAUSE NOMINAL AVERAGE WAGES GREW MORE RAPIDLY (24.3 PERCENT) THAN THE CONSUMER PRICES (19.2 PERCENT); REAL WAGES IN 1998 WERE 12.9 PERCENT LESS THAN IN 1997. WORKERS IN KIEV, THE CAPITAL CITY, EARN THE HIGHEST MONTHLY WAGE, AVERAGING UAH 302.64 A MONTH IN 1999. MANY UKRAINIANS ARE FORCED TO WORK SECOND AND THIRD UNOFFICIAL JOBS TO MAKE ENDS MEET, THEREBY MAKING UP A VAST PORTION OF THE SHADOW ECONOMY.

MINIMUM WAGE:

ON JUNE 1, THE PARLIAMENT PASSED A LAW EARLIER RECOMMENDED BY THE PRESIDENT TO RAISE THE MINIMUM WAGE FROM UAH 73 TO UAH 90 PER MONTH AS OF APRIL 1, 2000 AND TO UAH 118 STARTING WITH JULY 1, 2000. ACCORDING TO UKRAINIAN LEGISLATION, THE MINIMUM WAGE IS TO BE ADJUSTED WHENEVER CONSUMER PRICE INCREASES REACH 30 PERCENT FROM THE TIME OF THE LAST MINIMUM WAGE ADJUSTMENT.

LABOR MANAGEMENT RELATIONS:

LARGER ENTERPRISES TO REDUCE STAFF HAVE NEGATIVELY AFFECTED THE LABOR MARKET'S ABILITY TO RESPOND TO NEW MARKET CONDITIONS. A SIGNIFICANT PART OF THE UKRAINIAN LABOR FORCE HAS MIGRATED TO THE SHADOW ECONOMY, TAKING UP SERVICE JOBS SUCH AS TAXI DRIVERS, WAITERS, AND TRADERS -- ANYTHING TO ENSURE ECONOMIC SURVIVAL. IN AUGUST 1999 (SHORTLY BEFORE THE

PRESIDENTIAL ELECTION), THE GOU STARTED TO REPAY WAGE ARREARS, WHICH, FOR THE FIRST TIME IN THREE YEARS, WERE REDUCED BY 1.8 PERCENT (OR BY UAH 119 MILLION). PLANT MANAGERS CONTINUE TO SEE EMPLOYMENT OF THEIR WORK FORCE AS A KEY PRIORITY, AND FOREIGN INVESTORS MAY ENCOUNTER RESISTANCE IN TRIMMING A PROJECT'S WORK FORCE TO AN EFFICIENT LEVEL. A FURTHER COMPLICATION IN BUSINESS NEGOTIATIONS IS THE UKRAINIAN ENTERPRISE'S CONTINUING RESPONSIBILITY FOR MUCH OF THE SOCIAL INFRASTRUCTURE SUSTAINING ITS WORKERS.

EFFECT OF LABOR FACTORS ON CHOICE OF TECHNOLOGY: UKRAINE'S INDUSTRIAL INHERITANCE FROM THE FORMER SOVIET UNION, PARTICULARLY ITS MILITARY-INDUSTRIAL COMPLEX, HAS PRODUCED EXCELLENT SPECIALISTS, ENGINEERS, AND PROGRAMMERS. HOWEVER, THESE SPECIALTIES RARELY WERE COMMERCIALIZED IN THE SOVIET COMMAND ECONOMY, LEAVING MANY UKRAINIANS POORLY EQUIPPED FOR THE DEMANDS OF DYNAMIC, INFORMATION-BASED COMMERCE. HOMO SOVIETICUS, OR SOVIET MAN, HAS LEFT A DISTINCT IMPRESSION ON UKRAINE'S WORKING-AGE POPULATION. THE SOVIET COMMAND-ADMINISTRATIVE SYSTEM DISCOURAGED CREATIVITY AND ENTREPRENEURIAL SPIRIT, INHIBITING THE GROWTH OF BUSINESS IN UKRAINE. UKRAINIAN WORKERS, IN THE BLUE-COLLAR AND WHITE-COLLAR SECTORS, MORE OFTEN THAN NOT RESPOND TO "TOP-DOWN" MANAGEMENT PRACTICES. INDEED, ONE OF UKRAINE'S MOST IMPORTANT GOALS WILL BE TO RE-TRAIN ENTIRE GENERATIONS OF ITS WORKERS IN ORDER TO COMPETE IN THE FAST-PACED WORLD OF HIGH-TECHNOLOGY PRODUCTION AND MODERN MANAGEMENT METHODS AND PRACTICES.

----- E. FOREIGN TRADE ZONES/FREE PORTS -----

FEZ: THE UKRAINIAN LAW "ON SPECIAL (FREE) ECONOMIC ZONES," ADOPTED IN 1997, ESTABLISHED THREE TYPES OF ECONOMIC ZONES IN UKRAINE: 1) SPECIAL (FREE) ECONOMIC ZONES (FEZ); 2) TERRITORIES WITH A SPECIAL INVESTMENT REGIME; AND 3) TERRITORIES OF PRIORITY DEVELOPMENT, WHICH PROVIDED TAX INCENTIVES/CONCESSIONS TO BUSINESS ENTITIES OPERATING IN THE ZONES. FEZ GENERALLY OPERATE FOR A PERIOD OF 10 TO 30 YEARS. IN ADDITION, UKRAINE HAS TERRITORIES WHICH ARE DESIGNATED AS SPECIAL INVESTMENT REGIMES AND OF PRIORITY DEVELOPMENT. THESE DO NOT HAVE INDEPENDENT CUSTOMS BORDERS AS IN THE CASE OF FREE ECONOMIC ZONES.

AS OF JULY 1, 2000, TEN FEZ WERE IN OPERATION IN UKRAINE: SYVASH FEZ (IN NORTHERN CRIMEA), AZOV (IN DONETSK OBLAST), DONETSK (18 TOWNS IN DONETSK OBLAST), ZAKARPATYA (ZAKARPATSKA OBLAST INCLUDING AUTOPORT "CHOP" ON THE UKRAINIAN-HUNGARIAN BORDER), YAVORIV (LVIVSKA OBLAST BORDERING POLAND), TRUSKAVETS (LVIVSKA OBLAST), SLAVUTYCH (SATELLITE-TOWN OF CHORNOBYL NPP), FEZ "INTERPORT KOVEL" (IN VOLYNKA OBLAST BORDERING POLAND), FEZ "PORT CRIMEA" IN KERCH, CRIMEA, AND THE TERRITORIES OF PRIORITY DEVELOPMENT (WHICH INCLUDE GREATER YALTA, ALUSHTA, SUDAK, FEODOSIYA, EASTERN CRIMEA), FEZ "PORTO-FRANCO" IN ODESSA SEA PORT. IN RESPONSE TO PRESSURE FROM THE IMF TO REDUCE THE USE OF

FEZ, THE GOVERNMENT HAS PLACED RESTRICTIONS ON WHICH TYPE OF ACTIVITIES MAY QUALIFY FOR BENEFITS IN EACH FEZ.

SUBSIDIES:

ALTHOUGH THE GOVERNMENT HAS REDUCED MANY DIRECT SUBSIDIES PROVIDED TO STATE-OWNED INDUSTRIES, THEY STILL REMAIN QUITE SIGNIFICANT. MOST SUBSIDIES APPEAR NOT TO BE SPECIFICALLY DESIGNED TO PROVIDE DIRECT OR INDIRECT SUPPORT FOR EXPORTS, BUT RATHER TO MAINTAIN FULL EMPLOYMENT AND PRODUCTION. IN CONJUNCTION WITH ITS APPLICATION TO JOIN THE WORLD TRADE ORGANIZATION (WTO), UKRAINE IS NEGOTIATING TO JOIN THE WTO SUBSIDIES CODE.

FREE PORTS:

ALL SEAPORTS IN UKRAINE ARE STATE-OWNED EXCEPT FOR SEVASTOPOL. MOST RIVER PORTS HAVE BEEN TURNED INTO OPEN OR CLOSED JOINT STOCK COMPANIES. THE GOU IS ATTEMPTING TO TURN MOST SUCCESSFUL SEAPORTS INTO FREE PORTS BY ESTABLISHING FREE ECONOMIC ZONES AROUND THEM, BUT THE PACE OF REFORM IS VERY SLOW. AS OF JULY 2000, ONLY PORTO-FRANCO IN ODESSA HAD FREE PORT STATUS. THE PRESIDENT SIGNED AN EDICT IN 1999 GRANTING FREE PORT STATUS TO THE PORT OF RENI, LOCATED ON THE LEFT BANK OF THE DANUBE. HOWEVER, THIS DID NOT TAKE EFFECT AS OF THE TIME OF THE MAKING OF THIS REPORT. TWO OTHERS -- MARIUPOL (SEA OF AZOV) AND ILICHEVSK (BLACK SEA) - HAVE BEEN CONSIDERED FOR FREE PORT STATUS.

----- F. FOREIGN DIRECT INVESTMENT STATISTICS -----

FOREIGN DIRECT INVESTMENT:

ALTHOUGH FDI HAS RISEN SINCE INDEPENDENCE, ITS CURRENT LEVEL FALLS FAR SHORT OF FULFILLING BASIC INVESTMENT NEEDS. THE GOU ESTIMATES UKRAINE NEEDS USD 40 BILLION IN FOREIGN DIRECT INVESTMENT TO ASSIST IN ITS ECONOMIC RESTRUCTURING. HOWEVER, UKRAINE HAS ATTRACTED A TOTAL OF ONLY USD 3.25 BILLION DURING THE TEN YEARS SINCE INDEPENDENCE (USD 437 MILLION IN 1999). FOREIGN DIRECT INVESTMENT IN THE FIRST QUARTER OF 2000 DID INCREASE 50 PERCENT FROM THE SAME PERIOD IN 1999; HOWEVER, THE INCREASE IS SKEWED BY THE FACT THAT FDI FELL BY MORE THAN 42 PERCENT DURING THE FIRST QUARTER OF 1999 COMPARED WITH THE SAME PERIOD OF 1998. ACCORDING TO A CABINET OF MINISTERS REPORT TO PARLIAMENT, DATED JULY 14, FOREIGN DIRECT INVESTMENT

YEAR. NEVERTHELESS, UKRAINE'S CUMULATIVE FDI REMAINS LOW COMPARED TO OTHERS IN THE REGION. FOR EXAMPLE, DURING THE SAME TEN YEAR PERIOD, POLAND ATTRACTED CUMULATIVE FDI OF APPROXIMATELY USD 39.0 BILLION. DIRECT FOREIGN INVESTMENT IN THE CAPITAL CITY OF KIEV (WHICH HAS A REPUTATION AS A PARTICULARLY DIFFICULT PLACE TO DO BUSINESS BECAUSE OF THE PRESENCE OF CORRUPT AND UNHELPFUL OFFICIALS IN THE CITY ADMINISTRATION) DECLINED FROM USD 182.3 MILLION IN 1998 TO ONLY USD 70 MILLION IN 1999.

FDI BY COUNTRY:

AS OF JANUARY 2000, THE FOLLOWING CUMULATIVE TOTALS HAD BEEN INVESTED, BY COUNTRY OF ORIGIN: THE UNITED STATES, USD 589.5 MILLION; THE NETHERLANDS, USD 301.0 MILLION; RUSSIA, USD 286.7 MILLION; AND GREAT BRITAIN, USD 243.4 MILLION.

INDUSTRY SECTOR DESTINATION:

FOOD PROCESSING HAS ATTRACTED THE MOST FOREIGN INVESTMENT (USD 662.4 MILLION), FOLLOWED BY DOMESTIC TRADE (USD 557.8 MILLION), METAL PROCESSING AND ENGINEERING (USD 354.8 MILLION), AND ENERGY (USD 189.5 MILLION).

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