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Department of Commerce

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Inquiry on Ukraine

NME Status

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SUBJECT: The Ukrainian Association of the Enterprises of Ferrous Metallurgy comments on the Market Economy Status of Ukraine in the Antidumping Investigation of Carbon and Certain Alloy Steel Wire Rod from Ukraine

The Ukrainian Association of the Enterprises of Ferrous Metallurgy pursuant to the Department's notice of April 19, 2002 (67 FR 19394), is pleased to submit comments regarding revocation of the non-market economy country status for Ukraine and has to advise the following.

1. The Extent to Which the Currency of the Foreign Country is Convertible Into the Currency of Other Countries

Ukrainian currency unit - hryvnia has been convertible for the current accounts since its introduction in 1996. The exchange rate of hryvnia has always been set based on the actual

interbank transactions rate. At times of economic stability for the world economy, no surrender of the foreign currency was required (e.g., 1997-98). Full convertibility of hryvnia can be illustrated by the statistics of the official exchange rate in comparison with real GDP or foreign trade balance (see Table 1).

However, to secure convertibility, especially for the accounts payable in the foreign currency, there should be a steady supply of the foreign currency for sale. During the world economic crisis and export market turmoil shortly thereafter, exporting companies, in 1998 the only source of foreign currency supply in Ukraine¹, have chosen to keep their hard currencies and shed off newly introduced hryvnia. The exchange rate of hryvnia has decreased by almost 100%, whereby National Bank had to intervene in order to prevent unjustifiable devaluation of the national currency against hard currencies of the world.

Introduction of the 50 percent surrender of the foreign currency proceeds was a measure of anti-crisis macroeconomic management, rather than unsterilized intervention into the foreign currency market. The currency is freely traded on the market, mostly interbank currency exchange, based on the sale and purchase bids. We, therefore, submit, that the surrender of the foreign currency proceeds does not distort the convertibility mechanisms, but rather is an instrument of reverting trust into newly introduced national currency.

¹ Bank lending and bond issues in Ukraine have largely developed in 1999-2001.

Table 1. Market exchange rate of Ukrainian hryvnia

	1997		1998		1999		2000		2001		2002	
	Jan. 1	Dec. 31	Jan. 1	Dec. 31	Jan. 1	Dec. 31	Jan. 1	Dec. 31	Jan. 1	Dec. 31	Jan. 1	May 30
US \$1	1.893	1.899	1.899	3.427	3.427	5.216	5.216	5.435	5.435	5.299	5.299	5.330
1 DM	-	-	-	-	2.048	2.679	2.679	2.586	2.586	2.388	N/A	N/A
1 Euro	N/A	N/A	N/A	N/A	3.998	5.240	5.240	5.057	5.057	4.667	4.667	4.967
Real GDP, % of previous period	97.0		98.1		99.7		106.0		109.1		103.8*	
Balance of foreign trade, m. USD	-1309		-1297		1658		1481		1402		336.3**	

* Data for January-March of 2002.

**Data for January-February of 2002.

Source: National Bank of Ukraine database

Frequent participation of the National Bank is not per se a distortion of the market pricing and trends on the currency exchange market. Ukraine has not had its own currency reserves or own monetary system until recently. NBU, therefore, has to employ market mechanisms to build up the hard currency reserves using the supply and demand fluctuations. Playing as a regular stock exchange participant, National Bank is using the most adequate instruments for the stability of the currency-exchange market - i.e., participating as a regular currency dealer. No other forms of interventions were employed since the world crisis of 1998.

The International Monetary Fund in its country report concluded that in 2001

"Base and broad money grew by 37 percent and 42 percent, respectively. The strong money growth accommodated a further increase in real money demand, in line with the economic growth, the continuing remonetization of the economy, and the return of confidence in the hryvnia. During the period January-October, the NBU bought some \$2.1 billion in the foreign exchange market, reflecting the strong balance of payments situation. The commercial banks boosted their lending to the economy, although real interest rates remain high."²

Interventions of the National Bank of Ukraine in the 1st half of 2002 have not exceeded 7 percent of the total volume of trade in the interbank currency exchange market, i.e., have been at the level, that does not impede market mechanisms on the exchange rate of national currency (see Table 2).

Table 2. Volume of trade and interventions of the NBU

Year 2002	Volume of Trade, million US Dollars	Balance of NBU interventions, millions US dollars	NBU interventions, % of total volume
January	2582	47.104	1.8
February	2508.7	147.6	5.9
March	2862.1	205	7.2
April	3120.5	51.5	1.7
May (1-17)	1308.4	44.0	3.4

Source: official web-site of the National Bank of Ukraine
http://www.bank.gov.ua/Fin_ryn/pot_tend_v/index.htm.

The Department, in its inquiry on Russian economy, has stated that the machinery of mandatory sale of 50 % foreign currency proceeds and other currency restrictions belong to moderate regulatory instruments of the currency exchange market since they prevent the capital volatility and are close, by the nature to

² http://www.imf.org/external/np/sec/pn/2002/pn0252.htm#P30_350.

the currency exchange controls in the countries with market economies³.

We submit, therefore, that the extent and frequency of the NBU interventions into the currency exchange market did not distort real value of the Ukrainian currency on the currency exchange market.

2. **The Extent To Which Wages Rates In The Foreign Country Are Determined By Free Bargaining Between Labor And Management**

Wages and the Market Mechanisms

The wages rates in Ukraine are established freely by bargaining between labor and management. The bargaining is based on the market principles, i.e. on supply and demand factors on the labor market in Ukraine. Except for uniform minimal wages, prescribed by the Government of Ukraine (just like governments in most of the market economies), the non-governmental sector of economy is not restrained in determination of the wages rates whether in upper or lower threshold.

The wages rates in the economy of Ukraine are tied up to the level of economic development. The statistics show that the wage rates fluctuated along with the economic growth of 2000-2002 (see table 3). For example, during January-March 2001 the real wages have increased by 19.2 %. In March 2002 average wages in

³ See Memorandum of June 6, 2002 from Albert Hsu to Faryar Shirzad re Inquiry into the Status of the Russian Federation as a Non-market Economy Country Under

the economy were **354.81 UAH**, a 7.95 % increase from February 2002 and a 26.3 % increase from March 2001.

The average monthly wage rate in agricultural sector of economy has reached 153.53 UAH, a 32.2 % increase from March 2001⁴. Table 3 demonstrates correlation between the economic growth, real wages and unemployment rates in Ukrainian economy.

Table 3. Real wages rates in economy of Ukraine

	1998	1999	2000	2001	January-March 2002
Real GDP, % of previous period	98.1	99.7	106.0	109.1	103.8
Real wages, % of previous period	96.2	91.1	99.1	119.3	119.2
Official* number of unemployed, thousand.	1003.2	1174.5	1155.2	1008.1	1079.2
Official unemployment rate	3.7	4.3	4.2	3.7	3.9

*Official number of unemployed based on the number of unemployed people who applied to the social security service.

Breakdown of the Wages Rates

Labor market in Ukraine is developed to the extent when the wages rates are determined by the web of factors including the skills, education and age of the employees, sector of economy and region of the country.

the U.S. Antidumping Law, 1st statutory criterion.

⁴ Official web-site of Ukrainian statistical office www.ukrstat.gov.ua

Although, as indicated above, the growth of the real wages rates was related to the growth in GDP, different sectors have reacted to the growth differently. The largest increase in wages was observed in the fisheries; such economic sectors as aviation, transport technical services, coke production and oil refinery, and financial services have also underwent major increase in the wages rate (1.8-2.5 times). Such sectors as agriculture, textiles, leather and garments production, and retail services have been increasing to least extent (74 % of the average increase in economy or below).

Regional wage rates have preserved asymmetry - highest average wage rates were in the city of Kyiv (capital of Ukraine) - 550.83 UAH, while Ternopil region had the lowest wage rates - 192 UAH; thus the gap between the highest and lowest earning regions remained high with the ratio 2.9⁵.

The asymmetry in the wages rates is also reflected in the unemployment rate. In March 2002, the highest unemployment rate of 7.6 % was observed in Rivne region (190 % of the nation-wide average rate), while lowest rate was observed in the city of Kyiv (0.6 %), city of Sevastopol (0.9 %) and Odessa regions (1.7 %) ⁶.

⁵ <http://www.ukrstat.gov.ua>.

⁶ Official web-site of the Ministry of Economy and European Integration - <http://www.me.gov.ua/showpage.php?id=95>.

Labor mobility in Ukraine is not restricted as it reflected in the labor migration in official statistics. An evidence of the Government of Ukraine commitment to facilitate labor market factors also includes elimination of the registration system for the population (the one still in force in Russia, where the registration is required to receive a job and vigorously enforced by some federal regions⁷).

Wage Arrears

Although wage arrears, as we submitted previously, are not significant in Ukraine to the extent influencing the labor mobility on the large scale, there is an evidence that Ukraine has improved situation with the remaining arrears over the last two years. Notwithstanding, the Department has indicated, in its analysis of the NME status for Kazakhstan and Russia, that the significant wage arrears in those countries *per se* are not incompatible with the market economy.

During March 2001-March 2002, the wage arrears have decreased by 45 %, some regions have decreased them by 61-81 %⁸. Most of the wage arrears were allocated to the governmental sector of economy and the agricultural sector, which was a target of reform in 1999-2001. Over 84 % of the total arrears were due

⁷ See Memorandum of June 6, 2002 from Albert Hsu to Faryar Shirzad re Inquiry into the Status of the Russian Federation as a Non-market Economy Country Under the U.S. Antidumping Law, public comments outline, - statutory criteria 2.

⁸ <http://www.ukrstat.gov.ua>.

from 2000 and earlier years⁹, i.e., when the reforms were not completed and the economy of Ukraine was in deep recess.

Therefore, we submit that the labor market in Ukraine is determined by the market forces, and the wages rates and labor mobility are not distorted through control of the government neither *de jure* nor *de facto*.

3. **The Extent to Which Joint Ventures Or Other Investments by Firms Of Other Foreign Countries are Permitted in the Foreign Country**

Investments in the own assets of Ukrainian economic entities have substantially increased over the last two years. In particular, in 2000 total investments have increased by 14.1 % and in 2001 - by 17.2 %. Over 24 regions (of total 27) have increased the amount of investments attracted into regional economies. The amount of the foreign investment have also substantially increased: in 2000 the foreign investors registered¹⁰ investments worth US \$792.3 million and in 2001 - US \$813.7 million¹¹.

⁹ Idem.

¹⁰ Official statistics are based on the investments registered at the Ministry of Economy and European Integration of Ukraine. However, under Ukrainian laws foreign investors may choose not to register and, therefore, they will not be reflected in statistics. This also explains the difference between actual rate of foreign investments and (underestimated) official rate.

¹¹ <http://www.me.gov.ua/showpage.php?id=95>

Most investments over the last two years were attracted to the following industries: transport services, mail and communication services, processing and mining industries. It is important to note that most of the investments were attracted by the non-governmental sector of economy. Direct foreign investment in the Ukrainian economy is diverse, evidencing developed trade and investment links of the recently established state - 113 countries have invested in the Ukrainian economy. Among those, main investors were the companies of the United States of America (16.6 %), Cyprus (10.8 %), United Kingdom (9.5 %), the Kingdom of Netherlands (8.4 %), Russia (6.7%), Germany (5.7%), Virgin Islands (5.6 %), Switzerland (4.4 %), Korea (3.9 %). These 9 countries jointly account for 71.6 % of total registered direct foreign investment in Ukraine¹².

Ukraine also extensively attracts investments from the international financial institutions. Money lent and invested by IBRD, EBRD, IMF and so on are not included in the direct foreign investment figures above although they lead to the same effect. As of June 1, 2001, International Bank for Reconstruction and Development had 6 investment projects in Ukraine totaling over US \$420 million; Ukraine has borrowed from IBRD over US \$2.29 billion, mostly for the structural reform. Ukraine has already

¹² <http://www.me.gov.ua/showpage.php?id=95>. Investments of the international financial institutions are not accounted for in this classification.

completed 12 investment projects where the IBRD's participation reached US \$813.7 million.

With regard to EBRD, its 36 project portfolio in Ukraine reached €1.6 billion as of May 1, 2001. Total value of these 36 projects is worth €4.2 billion.

Ukraine also was able to attract significant resources of the Black Sea Bank for Trade and Development. This institution was created by the countries of the Black Sea basin and started its operations on June 1, 2000. Projects in Ukraine account for 26 % of its operation activities (any other country accounts for 7% or less) and, after 11 months of operation, has financed the projects worth US \$142 million¹³.

The Government of Ukraine has sponsored creation of the national and regional investment tenders, creation of the investment project database facilitating, this way, the competition among regions and industries for the investments¹⁴. The investment expertise have determined that the following industries have the highest return on investment during 2001: food processing industry, wholesale trade and broker services, financial services, machine-building, chemical and oil refinery industry, real estate transactions, metallurgy¹⁵.

¹³ <http://www.me.gov.ua/showpage.php?id=72>

¹⁴ See, e.g., <http://www.ukraine-gateway.org.ua/>, <http://www.imvu.com.ua/>

¹⁵ <http://www.me.gov.ua/showpage.php?id=95>

Overall, 8168 companies in Ukraine are the recipients of direct foreign investments. In oil refinery business alone, the amount of the investments totaled US \$100 million in 2000-2001, including US \$15 million for modernization and repair of the fixed assets¹⁶. On the other hand, Ukraine has also exported investment (as of January 1, 2002 - US \$157.5 million, including US \$87.9 million (55.8%) to the countries of the former USSR, and US \$69.6 million (44.2%) to other countries in the world.

The Government of Ukraine has promoted regional competition for the attraction of foreign and domestic investments. Currently, there is a substantial disparity among regions in attracting direct foreign investments. Among 27 regions in Ukraine, leading areas were: the city of Kyiv (US \$1522 million), Kyiv region (US \$351.1 million), Donetsk region (US \$334.8 million).

Since the 2nd half of 1999, the Government of Ukraine has been establishing special economic zones (in the form of "free economic zones" and the "priority development areas"), especially designed to attract direct and portfolio foreign and domestic investments.

By January 1, 2002, Ukraine had 10 free economic zones and 70 priority development areas in 8 regions of Ukraine. The most successful special economic zones were in Donetsk region - the

¹⁶ Agency on Fuel and Energy web-site

http://www.pekinform.com.ua/analitics_og_14.htm

province, which suffered of structural disbalance and lack of investment into the fixed assets. Simultaneously, one has to note that special economic zones in Donetsk region are the "oldest" ones - they have started functioning since January 1, 2000. Therefore, Ukraine is likely to attract a substantial share of the direct foreign investments within the next several years through special economic zones.

Such zones have more favorable regime of business activity, in particular, they have certain tax breaks privileges, simplified reporting procedures, simplified regulatory environment, and other incentives for the investors. Free economic zones and priority development areas are established for the term of 30-50 years and their regime may be prorogued.

Special economic zones were able to achieve significant economic results in less than 2 years of the operation (see Table 4).

Table 4. Economic results of the special economic zones in Ukraine as of November 1, 2001.

	Value of the business-project approved for implementation, US \$1000		Investments attracted, US \$1000		Goods and services sold, 1000 UAH		Number of the jobs created	Number of the jobs preserved
	Total	Including foreign investments	Total	Including foreign investments	Total	Exported		
Total Free economic zones	517734	200270	75258	24618	2106318	394375	5076	14019
Total priority development areas	1554403	674921	576875	249361	5307239	1424448	19219	32502
Total zones and areas	2072138	875190	652133	273979	7413557	1818823	24295	46521

Source: the Ministry of Economy and European Integration of Ukraine http://www.me.gov.ua/downloads/mon_govten2001.xls

During the last two years Ukraine has lifted restrictions¹⁷ on the foreign direct investment into such sensitive areas as insurance, banking and financial services, telecommunications, radio and television¹⁸.

Therefore, we submit that Ukraine has sufficiently succeeded in attracting foreign investment and created effective regulatory framework for the foreign investment, which fully complies with the WTO standards.

4. **The Extent of Government Ownership Or Control of the Means of Production**

Privatization

The Government of Ukraine has consistently reduced the governmental sector in Ukrainian economy by privatization, demonopolization and strict enforcement of the competition rules. Only in the 1st quarter of 2002, 1451 companies were successfully privatized by the State Property Fund. The share of the small businesses in Ukrainian economy has substantially increased¹⁹. It is worth noting, that in 1991 the share of the small enterprises in Ukraine was miniscule both by number and by the volume of the goods and services produced. In 2000, the labor, employed by the small private sector has reached 15 percent of total workforce²⁰.

¹⁷ I.e., the share of stock owned by the foreign company or person.

¹⁸ See Law of Ukraine "On Foreign Investments Regime", also relevant amendments to the Laws of Ukraine "On Insurance", "On Radio and Television", "On Banks and Banking", "On Financial Services" etc.

¹⁹ <http://www.me.gov.ua/showpage.php?id=95>

²⁰ <http://www.ukrstat.gov.ua/>

The structural changes in economy of Ukraine supplemented by the competition rules provide sufficient support for the conclusion on the market status of the Ukrainian economy.

Land Reform

Ukraine has completed substantial part of the land reform in 2001. It has created a transparent and efficient regulatory framework for the market of land resources. New Land Code of Ukraine, adopted in October 2001, has summarized legal developments in the land privatization. Implementation of the legislation on land privatization has made 6.4 million Ukrainian nationals the owners of 26.5 million hectares of agricultural land²¹. More than 15 million of Ukrainian citizens received land plots for individual purposes (for housing, summer cottages, gardening etc.). Foreign nationals have obtained a right to receive the land in ownership and dispose of it on the market principles.

Currently, Ukraine completes the final stage of the land privatization. It has to provide owners with the deeds of the ownership. Due to large number of the new owners, the program was fulfilled by 1/3 as of November 1, 2001. By 2000 99.5 % of the collective farms underwent reforms of the land ownership and were reorganized to private agricultural companies. On the basis of 11,400 former collective farms, new owners have established

²¹ Official web-site of the President of Ukraine

http://www.kuchma.gov.ua/main/?zv03_4

14,700 private agricultural companies and over 300,000 of individual private farms.²²

The above mentioned coupled with evidence of fast real GDP growth in the agricultural sector (over 4 % ahead of the growth in industrial sector) unequivocally proves complete and efficient nature of the market-oriented land reform in Ukraine.

5. **The Government of Ukraine does not Exercise Control Over the Allocation of Resources or the Price and Output Decisions of Enterprises**

The Law of Ukraine "On Entrepreneurship" has established the correlation of the Government and the business actors, stating that the business actors are free to take decisions concerning their economic activity. The government, on the other hand, undertakes to guarantee equal access of the business actors to the resources necessary for their activity. It is prohibited for the Government of Ukraine to intervene into the business decisions of the entrepreneurs.

Constitution of Ukraine of 1996 and the Law of Ukraine "On Property" establish general principles of the allocation of resources in economy. The laws guarantee equal legal regime for the property of business actors, both from governmental and private sectors of economy.

²² Official web-site of the President of Ukraine

http://www.kuchma.gov.ua/main/?zv03_4

The laws provide details in the allocation of the property among the business actors, their competence and social responsibility while enjoying the owner's rights.

Specific Ukrainian laws detail the provisions related to the ownership of the various types of economic resources. The laws provide, in particular, that any economic means of production can be owned either by government or by individual or by collective of individuals. If neither has established the right over resources they are presumed to be public-owned (i.e., owned by all people or everyone). The following economic resources were effectively privatized during the last five years:

- public enterprises' assets;
- land resources;
- water resources;
- timber woods;
- concessions to exploit continental shelf resource;
- concessions to exploit underground resources;
- licenses to exploit the atmosphere resources;
- licenses to exploit resort resources etc.

The access to the economic resources is equal and based on the constitutional right of every individual to conduct business activity and own the means of production.

The legislators have designed a sophisticated system for distribution of competence among regulatory authorities to ensure effective, timely and accountable access by the business actors to the economic resource of every kind.

The Law of Ukraine "On Enterprises in Ukraine" of 24.03.1991 is the core legislation for the types and organizational structures of enterprises, the rules of their incorporation, registration, reorganization, liquidation, and functioning. The Law prescribes that equal terms of enterprise's activity be kept by regulatory authority, regardless of the enterprise's ownership form on the assets and organizational structure.

In the managerial and other activity the enterprise may on its own initiative make any decisions that do not contradict to Ukrainian legislation. Interfering into the managerial and other activity by state, civil and cooperative bodies, political parties and movements is not permissible.

Enterprise's relationships with other enterprises, organizations and citizens in all spheres of managerial activity are based on contracts and agreements. The enterprises may freely choose the subject of contract, define any contractual terms and conditions at their own will.

Ukraine has adopted and vigorously implemented antitrust laws throughout its short history of independency. Most of the sectors were de-monopolized and effectively privatized during 1994-2001. The Law of Ukraine "On natural monopolies" of 2000 regulates operation of the industries regarded as natural monopolies. Such industries include: oil and gas tube

transportation; electricity transmission and distribution; railway utilities; air transport control; telecommunications of general use; centralized water and heat utilities.

The list of the natural monopolies is exhaustive. The Government of Ukraine established special regulatory agencies to supervise the pricing policy and environmental impact exercised by the natural monopolies. The pricing, as provided in the law, must allow compensation of the costs incurred and the profit margin sufficient for the extended reproduction of the assets. Consumer protection is vigorously implemented as reflected in judicial practice and law-making activities of the regulatory bodies.

In 2000-2001 the Government of Ukraine has significantly narrowed its authority of the price-setting due to demonopolization and increased competition in privatized sectors of economy²³. In particular, the pricing in the energy sector, the cornerstone of the market economy, was liberalized and now subject only to the supply and demand market mechanisms. The government has also liberalized price for the public utilities, transportation and most of the products and services of the industry and agriculture. The only instruments of the price regulation used by the government, for over 90 percent of

²³ <http://www.me.gov.ua/showpage.php?id=777>.

products and services in Ukrainian economy, are tax incentives and antitrust regulations²⁴.

We submit, that the Government of Ukraine's regulatory activities in the area of pricing and resources allocation are consistent with the practices of the most market economy countries and do not distort the pricing on the products and services in the economy.

6. **Other factors, as the Department deems appropriate**

Finalization of Negotiations on WTO Accession

Ukraine has started negotiations on accession to the WTO in 1993. Since that time, the Government of Ukraine has adopted several programs of accession in various areas of economy and implemented a number of legislative measures targeted at bringing Ukrainian trade laws in compliance with the provisions of WTO instruments.

As of June 1, 2001 Ukraine has made all the proposals required by the procedural provisions for accession. The only procedural issues remained before Ukraine's accession to the WTO depend on the Working Party - i.e., preparation of the draft report and its adoption by the managing bodies in the WTO (Table 5).

²⁴ Idem.

Table 5. Status of accession processes

Country	Application	Working Party Established	Memorandum	First Meeting of Working Party	Tariff Offers	Services Offers	Agricultural Data	Draft Working Party Report	Report Adopted by Working Party	Report Adopted by Council
Ukraine	Nov 93	Dec 93	Jul 94	Feb 95	May 96	Feb 97 Nov 97 Jun 98 April 00	Oct 95 Feb 97 Nov 97 Apr 98 Feb 00 Apr 00	-	-	-

Source: Web-site of the World Trade Organization
http://www.wto.org/english/thewto_e/acc_e/tn_tab2_e.htm

Corruption

Corruption and related phenomena are not indicators of the presence or absence of the market-pricing economy. In fact, every country, whether with market or non-market economy are not free of corruption and the corruption in the government or private sector. The Department has made it crystal clear in the analysis of the NME status for Kazakhstan and Russian Federation: despite the fact that data supports allegation of the substantial corruption level in Russia, this does not change the fact that prices, costs and losses in Russia are market-based²⁵.

The same conclusion was reached for Kazakhstan: the Department noted that even in the market countries different levels of corruption may exist.

Barter Transactions have been negligible over the last two years.

With respect to the barter, we would like to note that the Department in its analysis of the market reform in Kazakhstan,

²⁵ See Memorandum of June 6, 2002 from Albert Hsu to Faryar Shirzad re Inquiry into the Status of the Russian Federation as a Non-market Economy Country Under the U.S. Antidumping Law, statutory criterion 6 "Other Factors".

have stated that the barter is not an individual issue to be considered in the NME analysis, but should be treated with regards to its connection with the price distortion. We submit that the barter does not influence price formation in Ukraine to the significant extent.

The legislative basis for the barter settlements is formed by the Law of Ukraine "On Enterprises' Profit Taxation", the Law of Ukraine "On Value Added Tax", the Law of Ukraine "On Regulation of Barter Operations In Foreign Economic Activities" as well as State Budgets of Ukraine for the corresponding year.

Since 2001, the structure of payments in the industrial sector have substantially changed. The share of barter operations decreased by 2.2 times. In January 2002 the industrial enterprises of Ukraine have sold their production at 12.9 billion of hryvnias, of which only 0.5 billion hryvnias (4.2 percent) - on barter terms.

In the foreign economic activity the volume of export sales realized on barter conditions in 2001 was USD 55.9 million, which is 0.3 percent (in 2000 - 1.5 percent) of total exports from Ukraine. The volume of barter in the import transactions in

2001 was USD 53.4 million or 0.3 percent (in 2000 - 1.4 percent)²⁶.

Therefore, the monetary base and transparent legislative terms of the business activity in Ukraine have made the barter settlements in the economy fall to the level where they cannot be considered a threat to transparency of the financial flows both in domestic and foreign trade. Current level of barter transactions does not affect sustainability of financial and fiscal system in Ukraine.

Ukraine is committed to market reform and international cooperation

The Republic of Ukraine, since its independence in 1991, has committed itself to the market reform in economy and democracy in political institutions.²⁷ Ukraine is pro-active in its integration into the European Community, the goal, officially declared by the Government of Ukraine as early as 1994. Ukraine has been designated a status of a developing country and ever since was recipient of the technical aid from foreign and international institutions directed to strengthening of the market institutions and reform of the public sector. Efficiency

²⁶ The Ministry of Economy and European Integration of Ukraine, The Materials On Compliance Of The Present Status Of The Economy Of Ukraine With The Market Economy Conditions - EC Commission, Public Document, dated May 15, 2002.

²⁷ See e.g., Declaration of Independence of August 24, 1991, Constitution of Ukraine of June 28, 1996.

of the technical aid has been repeatedly confirmed by the auditors.

Ukraine has publicly renounced corruption and cronyism in economy by adopting governmental program to fight corruption²⁸. The public awareness of the market reform institutionalization have resulted into an NGO's international program for corruption elimination in Ukraine.²⁹

Of equal importance is Ukraine's active participation in nuclear disarmament of the former USSR countries and has been a party to the anti-terrorist coalition in the international combat of terrorism. In June 2002 Ukraine has also declared its will to access NATO.

Conclusion

Since 1991 Ukraine and Russia developed in a similar direction - that of the market economy. The smaller territory, concise and more structured economy of Ukraine provided a basis of the its more mobile and transparent market reforms in most of the sectors. Comparing to Russia, Ukraine has completed reform of its gas and oil sector and has substantially completed privatization of the electricity distribution sector. Thus, the cornerstone of the market pricing - prices on energy in Ukraine

²⁸ See e.g., President of Ukraine Decree "On concept of the fight with corruption in 1998-2005" as of April 24, 1998.

are straightforward. We would like to note that the Department of Commerce has recently confirmed Russia's transition to market economy status despite the lack of reform in the energy sector³⁰.

With regards to Ukraine and its market-driven energy sector, flexible rules of the currency conversion, privatization of the economy, we submit that Ukraine meets all the requirements established for the market economy country. Ukraine completed transition to the market economy and has unequivocally committed itself to the market economy operation. The Department, therefore, should graduate Ukraine, by revoking its status of non-market economy country for the purposes of trade investigations.

The Ukrainian Association of the Enterprises of Ferrous Metallurgy would like to remind the Department of Commerce of its utter respect.

Respectfully submitted,

V. A. Nozdrachov,
First Deputy of Managing
Director

²⁹ National Anti-Corruption Program, posted at <http://www.ukraine-gateway.org.ua/gateway/gateway.nsf/a6863ea87c859ba7c225690f0040c13c/1.%20Introduction>.

³⁰ See Memorandum of June 6, 2002 from Albert Hsu to Faryar Shirzad re Inquiry into the Status of the Russian Federation as a Non-market Economy Country Under the U.S. Antidumping Law, public comments outline.