

HOUSING FEASIBILITY STUDY
UKRAINE 1999

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Front Cover: A residence under construction, showing building methods and materials (mainly masonry with concrete hollow core floors utilizing cranes.

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Housing Feasibility Study - Ukraine

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1.0 Introduction

1.0 Introduction

The aim of this feasibility study is to provide a general overview of the housing-construction sector in Ukraine and assess potential involvement is there for Canadians (investors, designers, manufacturers, etc.). A number of very useful studies have been already written which provided valuable background material (statistics and data) and are listed in the Bibliography. This Feasibility Study on Housing has concentrated on the actual conditions as interpreted by local users and people involved in the construction industry. This provides an interpretive overview of the housing situation today.

Within the last decade, housing and construction in Ukraine has undergone a rapid change. For this reason this study provides a general overview of Ukraine as well as its housing and construction industry. Subsequently, there is a more detailed analysis of three cities that are distinct not only in character but also in scale as well as provide opportunities for Canadians. These three cities provide a description of **urban centers in Ukraine that are of different scale** - the large urban center like Kyiv is indicative of cities over 1 million, Lviv describes cities that have half a million to a million residence while Ivano Frankivsk is a compact city of less than half a million. Population count is estimated at:

- **Kyiv** - population 3,000,000 plus
- **Lviv** - population 800,000 plus
- **Ivano Frankivsk** - population 250,000 plus

The exact number of city dwellers is difficult to assess, especially since the disintegration of the USSR and the establishment of independent Ukraine in 1991. Prior to independence the communist regime had what we commonly refer to as a “command and control” society and dwelling locations of citizens were designated by what was called a “*propyska*” or what we can call an “assignment”. This “assignment” defined where the citizen was allowed to live and was written into every passport which influenced all aspects of daily life such as; location of work place, liberty of movement, and generally a system which could locate each citizen (and visitor). This system has all but fallen apart with the transition from communism to a democratic society after independence. A great number of people from the surrounding country side have endeavored to leave the agrarian towns “selo” for employment in major city centers because work on the farm provided little or no income. A great deal of foreigners (investors, various program personnel, embassy staff, and tourists) have also increased city dwellers. Many of these additions have not been documented properly and thus it is not possible to evaluate with precision the size of individual cities.

The major influx of people (especially foreigners) into the major cities has resulted into dramatic changes in the construction industry - an industry that was state run. Kyiv alone has over 15,000 foreigners working with embassies, aid projects and private business. Initially (early 1990's), the cost to buy and or lease dwellings increased dramatically with demand for housing being greater than supply as construction slowed down significantly. Inflation also influenced the cost of housing. Exposure to the west have brought in new materials and technology while little or no competition had at least initially established very high prices. The economic crisis in the initial years of independence played an important role in the economy as well as the construction industry. Today (1999) the changes within society have begun to normalize - hyperinflation of the mid 1990's of 2000% is down to 15 - 25%, demand for high priced housing is down as the influx of people has decreased, competition in manufacturing and import products has also lowered prices. However, the decrepit state of the housing stock developed in the last decades before independence, has provided a major opportunity to introduce quality products and systems.

The construction of dwellings due to the high costs associated with materials, has slowed down significantly. At first in the early 1990's, major housing projects (high rise buildings) that were under construction quickly came to a halt, and many stand as empty structures of brick and concrete. On the other hand, the old norms of allowable area per person no longer applied and some people began to expand their individual dwellings in country houses. Those with access to building materials and/or money started to build new individual dwellings, many of which are unfinished and dot the suburbs of cities throughout Ukraine.

Some foreigners, seeking the many opportunities in Ukraine, have invested a time and money to establish businesses. Significant advances in this regard has been made by Germans and Americans. Europeans (Italy, Poland, Spain, France, Great Britain, etc.) in general have also become involved in business ventures in Ukraine. However, Foreign Direct Investment (FDI) (comparatively speaking) has been minimal, (See fig 1-A). Ukraine ranks #10 in receiving investment (1996 statistics) with a total of less than \$10.00 per person whereas Hungary receives almost \$200 per person.

Canadians have contributed in assisting mainly with government sponsored programs (CIDA, CMHC, Renaissance Program, etc.) and some individual business ventures. These have taken the form of JV's (Joint Ventures) or branch offices or have developed Ukrainian firms. Many of the businesses have complained about ongoing problems due to changing laws, inflation, administrative bureaucracy, unethical partners, and differences in business practices. This feasibility study addresses these issues in the context of the construction industry for housing.

The prime source of information for this report was obtained from two main sources that provide the most up to date information and are authoritative. These are:

- Government officials that deal with construction (especially the city architect). Individuals who were interviewed, in May and June of 1999, are listed under contacts with Asterisk (**).
- Newspapers and Journals that report of the current state of affairs such as the Eastern Economist and others. These are listed in the Bibliography.

Fig 1-A

Foreign Direct Investment

Foreign Direct Investment in Transition Economies (\$millions US)					
Ranking Per Capita of FDI (1995/96)	Country (Population 1996) (ranking by pop'n)	FDI	FDI per Capita	FDI	FDI per Capita
		1995		1996	
1	Hungary (10,002,541) (6)	4,519	\$451.79	1,982	\$198.15
2	Poland (38,842,565) (3)	3,659	\$94.67	5,196	\$134.46
3	Latvia (2,468,982) (10)	180	\$72.90	292	\$118.27
4	Azerbaijan (7,676,953) (7)	275	\$35.82	601	\$78.29
5 (7 in 1995)	Croatia (5,004,112) (8)	81	\$16.19	300	\$59.95
6 (5 in 1995)	Lithuania (3,646,041) (9)	73	\$20.02	152	\$41.69
7 (6 in 1995)	Romania (21,657,162) (4)	419	\$19.35	624	\$28.81
8	Kazakhstan (16,916,463) (5)	280	\$16.55	310	\$18.33
9	Russia (148,178,487) (1)	2,017	\$13.61	1,800	\$12.15
10	Ukraine (50,864,009) (2)	267	\$5.25	440	\$8.65

Compiled by the Canada-Ukraine Monitor, based on information from various sources, including UNCTAD World Investment Report 1997

2.0 Ukraine

2.0 Ukraine

2.1 Brief History

The history of Ukraine is one of turbulent wars and attempts of self determination and independence. The geopolitical position of Ukraine as well as its natural resources have always made it attractive to foreign interests. First of all the major trade routes provided good access through Ukraine. These included East-West trading between Asia and Europe via the steppes and their river systems and North-South via the Dnipro River - third largest in Europe after the Danube and Volga.

Written history, began with the acceptance of Christianity in 988 by the great “*Kniaz*” - ruler of Kyiv Volodymyr the Great. The land was called *Rus*’ and stretched from the Baltic Sea to the Black Sea and from the Carpathian Mountains to the Caspian sea. However, the ruling class came from the northern Scandinavian countries in the 8-10th centuries as Vikings who either subjugated the local population by force or acted as mercenaries for local tribes. The Vikings quickly assimilated and accepted Christianity from Bazantium as the state religion instead of worshipping pagan gods. This dramatically changed all aspects of daily living in the region. The written word was introduced into the population, political ties were formed with various European dynasties, **building techniques changed from wooden structures that were prevalent to stone and masonry construction**. These early rulers, were governed by feudal lords with the aim of conquest of people and territory.

The Golden Horde; a Mongol-Tartar invasion that had swept in from the Steppes of the far east in the early 13th Century, first encountered the defense by the habitants of Ukraine. However, due to the infighting within the ruling class, the capital of Kyiv fell in 1240 and the rest of the empire quickly disintegrated. Subsequently the territories of what is today Ukraine have been dominated (at various stages) in segments by the Tartars who settled in the peninsula called Krym (Crimea), the Ottoman empire of Turkey, the Polish nobles and king, the Russian Tsar and his boyars, the Austro-Hungarian Empire, and others. Only the free spirited Cossacks challenged this foreign domination by waging ongoing wars between the 15th and 18th centuries from their strongholds of inaccessible islands along the central Dnipro River. **These interrelationships between foreigners and native population resulted in a phenomenon of split habitation - foreigners who occupied positions of authority lived mainly in cities while the subservient native population lived and worked in the countryside**. Even today in the major cities you will hear more Russian spoken while the towns on the outskirts are Ukrainian speaking.

In the twentieth century only a brief period of independence from 1918 to 1921 provided a national rebirth which was quashed by the Communist regime of Russia. The artificial famine which saw 7,000,000 people die of starvation, was instigated by Stalin in 1933 in order to break the private ownership of land, institute collectivization and purge any independent national sentiments. The two world wars devastated the country with Nazi Germany occupying Ukraine in the Second World War. The human lose during this period far outnumbered that of any other country - 8,000,000 people (2.5 million military, 5.5 million civilian - 19.1% of the population. Finally the worse nuclear disaster of Chernobyl occurred on April 26, 1986 and to date has fall reaching effects not only in Ukraine but has directly effected neighboring countries with its radiation fallout as well as sociological and economic considerations for the world. It is widely believed that Chernobyl was the beginning of the end for the USSR and the countries living behind the Iron Curtain. The previous impetuous of Solidarity in Poland and the fall of the Berlin Wall contributed to the fall of communism in western states that had some degree of autonomy where-as the iron fist control in eastern states underwent a dramatic change after Chernobyl. The net result was that Ukraine proclaimed independence in 1991 with an overwhelming vote of over 90% by the general population.

Independence has meant a changeover in many aspects of life including economic, social, political reforms which manifested itself in the introduction of Ukrainian as the state official language, changing to a new currency from the ruble to the hryvnia, free elections with a myriad of parties, the influx of western goods, as

well as detrimental aspects of increase in crime, bribery, spread of disease (AIDS), and the neglect of less fortunate - the old, the sick, the poor. This process is ongoing, trying to bridge the philosophy of the west with the realities of the east. A painful process which holds both opportunity and danger.

2.2 Geographic Location

Ukraine is said to be the geographic center of Europe. It is bordered by Russia (its largest trading -partner), Belarus, Poland, Slovakia, Hungary, Romania, and Moldova. Ukraine also has an extensive coast line with ports in the Black Sea and the sea of Azov, that provide access to the Mediterranean countries, the Middle East and major markets of the Western World and Far East via the oceans.

The width of Ukraine is approximately 2,000 km. (east west) by 1,000 km. (north south) and is about as large as France. It is divided administratively into 24 oblasts (provinces) one autonomous republic (Crimea or Krym) and two municipalities with special status - Kyiv and Syvastopil. Our feasibility study deals with three cities:

- Kyiv - the capital, located on central Ukraine
- Lviv - considered the western capital of Ukraine.
- Ivano Frankivsk - Oblast Capital near the Carpathian mountain area and a closed city until 1991.

Some pertinent facts:

	Ukraine	Canada
Area	603,700 sq. km.	9,970,600 sq. km.
Population	52 million *	32 million
* population has decreased markedly in the last 5 years to an estimates less than 50 million		
% Urban Population	68%	77%
Population Density	86 persons/sq. km.	2.9 persons/sq. km.
Territory	Mostly flat - fertile land elev. Less than 300 m, mountains in the west - Carpathian in south east - Krym	
Avg. Temperature	winter: -8C to 2C summer: 17C to 25C	



Fig. 2-B

Note: Cities of Feasibility Study

2.3 General Information

2.3.1 Politics

Ukraine has emerged (or one can say is emerging) from over 300 years of Russian domination and over 70 years of Russian Communist domination. This transition to a democratic and market driven economy is difficult within the context of history. None the less today Ukraine is considered a fully democratic country.

The following are facts on Ukraine:

Capital:	Kyiv
Oblasti (Provinces)	24
Autonomous Republic	1 (Krym)
Type of Government	republic
Independence Day	August 24, 1991
Constitution	Adopted June 28, 1996
Legal System	Based on Civil Law
Executive Branch	President, Prime Minister and Cabinet of Ministers
Legislative Branch	Verkovna Rada (Parliament) over 400 seats.
President	Leonid Kuchma
National Bank of Ukraine	Viktor Yushchenko, Governor
Elections	Verkovna Rada 1998; minority communist party elected President fall of 1999.

2.3.2 Economy

The ruble remained the currency of the USSR until its fall and the kupon was introduced as a temporary currency until September 16, 1996 at which time the hryvnia (HRN) became the official permanent currency.

Currency	Hryvnia (HRN)	
Rate of exchange	1 USD : 4 HRN, (May 1999)	
Main Industries (1995 stats.)	Industry	43.4%
	Services	30.3%
	Agriculture	
	and Forestry	13.2%
	Construction	9.3%
	Trade	6.6%
Main Export Destinations	Russia	43%
	USA	5%
	Germany	4%
Main Origins of Import	Russia	52.3%
	Turkmenistan	8%
	Germany	5%

The economic conditions deteriorated rapidly since 1991, for a variety of reasons, and peaked with hyperinflation in 1993 at 4,500%. However over the years inflation has been decreased 1994 - 401%; 1995 - 108%; 1996 - 91%. Today (1999) inflation is estimated at 19.1% (see Fig 2-C).

Fig 2-C

Inflation Rate in Ukraine
Ukraine Business Report
April 9, 1999 Vol.V iss.14

INFLATION RATE IN UKRAINE IN MARCH WAS 1%

The inflation rate in Ukraine in March was 1 per cent, IF-U has learnt at the State Statistics Committee.

Meanwhile, the prices of foods in March grew 1.5 per cent compared with February, non-foods went up by 0.1 per cent and services - 0.6 per cent.

As was reported earlier, last December, the inflation rate was 3.3 per cent, in January this year - 1.5 per cent and in February - 1 per cent.

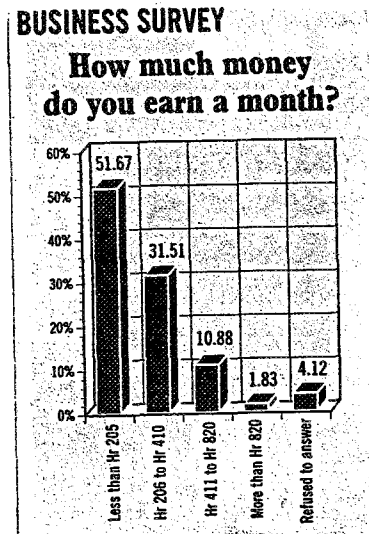
The inflation rates in February and March were the lowest since the outbreak of the financial crisis late last August.

The government is planning that in 1999 the inflation rate will not exceed 19.1 per cent. In 1998, the inflation hit 20 per cent.

Mortgages and loans are very rarely used as the prime rate (Announced at the end of April 1999) is 50% making conventional financing unattainable. Furthermore economic indicators such as GDP, average wages, unemployment etc. also effect construction and can be reviewed in the various publications (see Bibliography). In reality construction is financed by cash, or barter, or in the early 1990's - through inflation. The subsequent comments are aimed at providing a practical overview on the economic reality in the daily issues related to housing construction.

One can view **value** of currency through the earnings of people (see Fig 2-D) as compared to the costs of various commodities. The table shows that over 50% earn about \$50 per month and another 30% earn \$31 per month. Rental costs (see 3.2.4) run between \$10-430 per month, however consumer goods are almost the same cost as those in the west.

Fig 2-D
Business Survey Earnings
Kyiv Report Business
April 29, 1999



Communism

The transition from a communist state run economy to a market driven economy has many obstacles and obvious problems. This transition in effect has encountered (for a verity of reasons) many failures in Ukraine. With respect to housing the effect of Communist philosophy has been two fold:

- Citizens were **guaranteed** under the constitution housing, and the constitution of Ukraine has accepted this condition in the new constitution. Long waiting periods for housing (10-20 years) due to inefficient construction, abuses due to preferences to supporters of the system, and multiple residence (one suite in the city - the place of work, and one in the country - original residence); negatively effected housing stock.
- The system did not encourage technical advancement, innovation, and initiative which also negatively effected housing stock.

President Gorbachov in the 1980's proclaimed as a goal of the government for everybody to have a dwelling by the year 2,000. This provided an instant boom in the construction industry but fell well short of necessary quotas. Today (in his address to the nation in May 1999) President Kuchma has stated that Ukraine needs a minimum of 2 million dwellings to secure the needs of the country.

Change in Commodity Base:

Between 40-50% of production in the USSR was focused on the military with few developed commodities for daily living. The fall of the USSR greatly reduced military related production and resulted in a high unemployment rate. Since independence in 1991 to date, the focus has changing to consumer products - many still being imported. Start up costs for production (investment) is not forthcoming from locals who rather invest out of the country and foreign money is also slow in coming. Government state factories have much obsolete equipment and no public funds to support change..

Low Cost of Goods , the first years of independence.

The cost of goods during the early 1990's in Ukraine was much lower than in the west. For example a liter of pure alcohol could be purchased for 70 cents in Ukraine and sold in Poland (at half Polish price) for \$5.00.

Quick Construction of Dwellings in the early ears of Independence.

Independence in 1991 was a catalyst to construction for two main reasons. Firstly the limits on dwelling space during the communist era no longer was enforced and people who could started to build private dwellings with little knowledge that they could support these structures (payment of utilities, taxes, etc.). Secondly, the value of money decreased so rapidly that the amount one paid for concrete or brick structure in one month would not buy a few loafs of bread in another half year. The net result was that many people took advantage of this “new found freedom” and “building boom” and constructed the shells of dwellings. Many stand unfinished without windows, doors, interior finishes, utility hookups, etc. Few have manage to complete their houses while others live in one or two finished rooms to facilitate the high costs of heating and saving to pay for the balance of finishing (see Fig.2-E). The last years of the 1990’s have slowed down construction as prices rose to levels unattainable by ordinary workers due to low wages and the very high cost of money.

Fig 2-E

Unfinished housing Units



Wages

The Kyiv Post Business newspaper in the March 25th, 1999 issue states, “ **the average real wage, in Ukraine fell by 18.4%, from \$77 to \$63 (USD) in 1998...**” This statistic however does not reflect that many workers although earn money do not receive it for 3 to 6 months, and state run factories, professional (doctors, teachers, etc.) as well as pensioners obtain late payments. The average wage also does not reflect the fact that most workers receive “official” earnings of less than \$50 to avoid paying prohibitively high taxes. What happens in actuality is that many people survive due to garden plots that they maintain for food and much of the actual exchange of currency occurs in direct cash transactions that aren’t taxed or through a system of barter which also is not taxed.

2.4 Construction Industry - Housing

President Kuchma, in his political address in April 1999 recognized that housing is the one sector that has been most neglected. He has assigned as special commission headed up by Masol to investigate the problem and propose corrective action.

Housing prior to the Russian revolution provided two distinct categories of buildings - the village “selo” had simple wood frame houses that were covered in mud or plaster, and different roofing materials (thatched roofs most prevalent) while the cities and towns distinguished themselves by having masonry construction for the country elite - composed mostly of foreigners. Many of these homes were individual lavish mansions as well as two to five story apartment dwellings. The continued conflicts of the 20th century and especially the devastation of the two world wars did little to evolve housing in Ukraine. Only in the 1950’s was the task of housing addressed more comprehensively during the tenure of Mekita Khrushov. Masonry and concrete panel high rise buildings (8-12 story average) were constructed on mass to accommodate the influx of people from the selo to the city as part of the industrialization process. These buildings have been nicknamed “khrushovky” - illustrated in subsequent chapters.

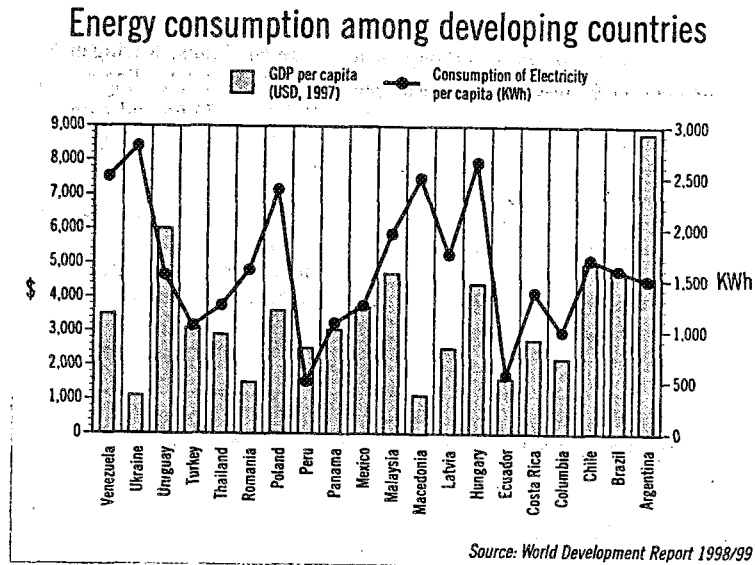
The norm for dwelling size was determined by the number of occupants and stood at 8-12 m sq. per person. This limited the size of suites and most designs had one room (bachelor) or two rooms (living room plus bedroom) or three rooms (living room and two bedrooms). Kitchen area and bathrooms were included but were not considered part of the “living area”. The high rise system utilized a core elevator and stair combination unlike the North American model that has the elevator core with long corridors and stairs at either end for fire egress. The design of the “khrushovky” resulted in multiple entrances to a building unlike the single entrance of the North American model and they had an elevator and single stair core associated with each entrance. Some dealt with the issue of a second means of egress by providing ladders within balconies. These designs saved on the costs of extra stairs but proved more costly as they needed more elevators that required maintenance. One advantage in many designs was the planning of the suite enabled both “front” and “back” orientation that is good for natural cross ventilation. This type of orientation is impossible in the North American model that divides the building with a corridor. Space is often gained by enclosing the balcony and it becomes an extension of the interior area, usually used for storage or adding onto a room such as the kitchen.

Technically the “khrushovky” lacked sophistication developed over time in North America. Construction not only lacked insulating qualities but humidity migration from the interiors to the exteriors walls along with differential in temperature, quickly effected construction materials - exterior finishes (tile, stucco, etc.) has continued to fall off buildings. In general the buildings have of masonry construction with brick walls and no insulation. or panel buildings with “karmosite - a stone type insulation of poor quality”. Panel buildings at time did have rigid insulation on end walls. Floors are concrete hollow core slabs, but are very tick - 300 to 400 mm. The floor slabs are also of poor quality and are not pre-stressed which accounts for their thickness.

The problem of energy conservation was not and is not seriously addressed because the artificial inexpensive costs during communist management. Water, electricity, and gas were cheap commodities. Thus there was (is) little or no insulation in buildings. The newer panel buildings are to have rigid insulation on the end suites while exterior walls of the other suites are to have a stone like insulator called karamsite with little insulating qualities. The interior stairwell with elevator along with ineffective window and door closure has remained a major contributor to heat loss. Of the two basic models the masonry one is better liked in that it maintains more control on energy conservation as compared to concrete panel counterpart. Exterior finishes as well as doors and windows are of very poor quality. Heat escapes through openings and the unprotected core of the building actually exposes each suite on three sides to exterior elements rather than one side as in the North American type construction.

The Kyiv Post Business of March 25th, 1999 story title read “Ukraine among world’s greatest energy wasters”. The table of the article (see fig 2-F) show the electricity consumption as compared to GDP per capita.

Fig 2-F
Energy Consumption
Kyiv Post Business
March 25, 1999



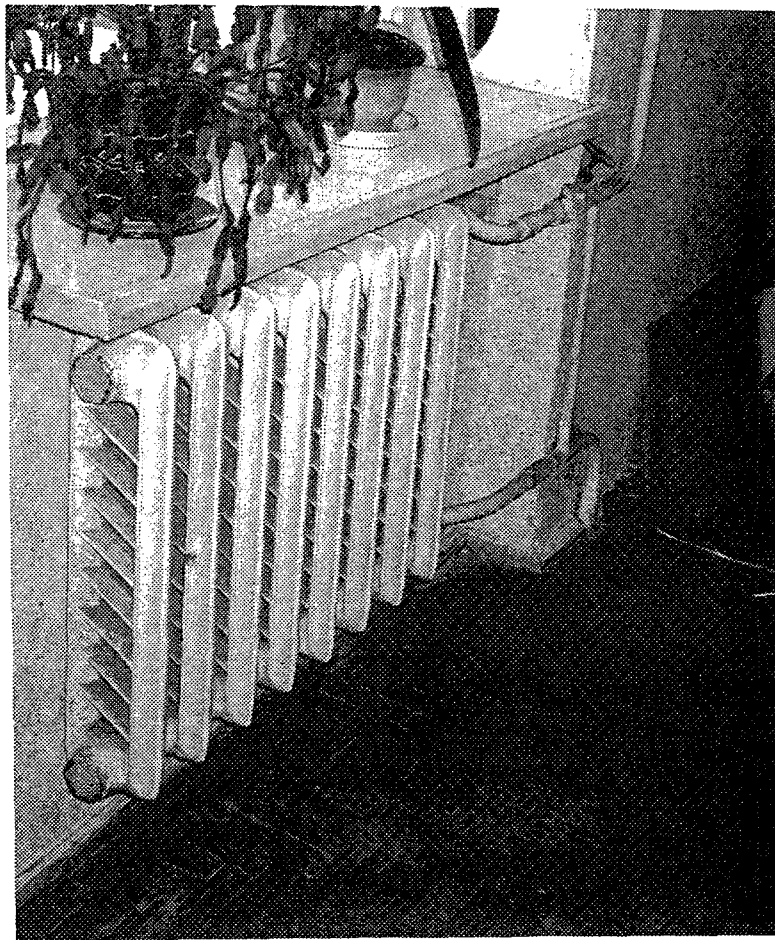
There are problems of corruption within the industry but inefficiency compounds these problems - for example:

- **Heating of buildings is done by a central heating system for the city and is distributed by pipe throughout all the residences. Pipes are usually not insulated (see Fig. 2-G). with old inefficient heaters in every residence. There are no thermostats in dwellings to regulate heat requirements. Breakdown and low maintenance of pipes add to constant loss of energy. Heat is provided on a yearly calendar bases (not as required) and often at random temperatures, thus overheating in the winter is compensated by opening of windows. The heating units themselves (see Fig. 2-H) are based on a conductive heating system and are also very inefficient.**

Fig 2-G
Not insulated Exterior Pipes

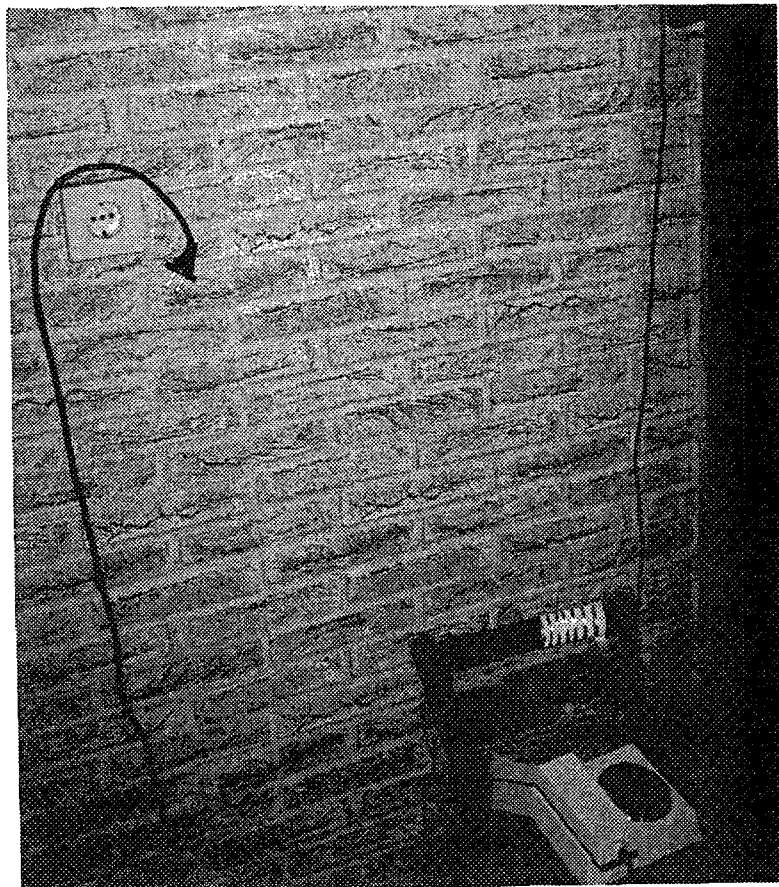


Fig 2-H
Interior Heating Units



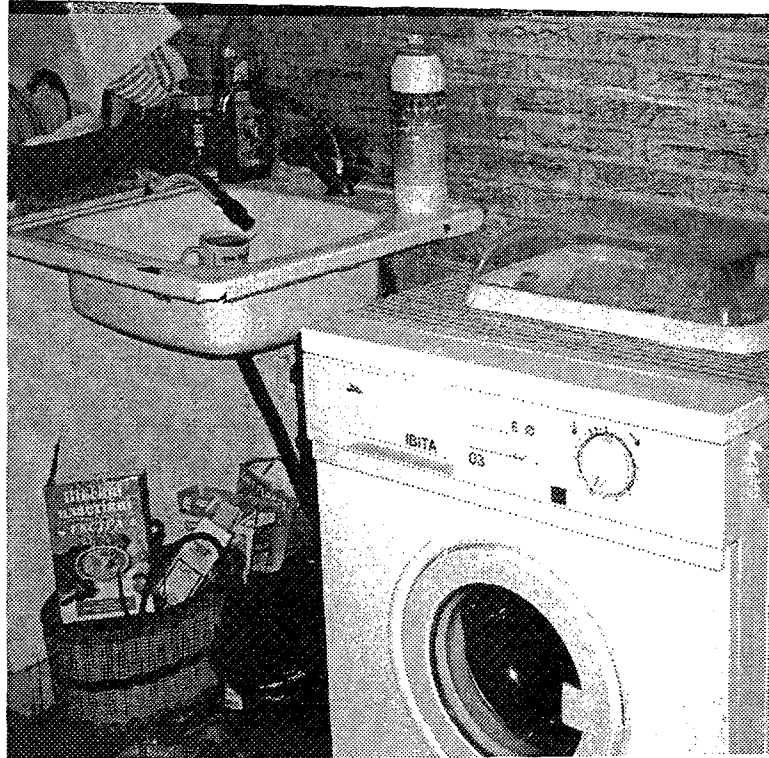
- **Electricity** is supplied through nuclear energy, water, and the burning of coal in plants. Environmental problems are frequent with Chernobyl (but one disaster) being widely known. To conserve electricity, elevators are shut off in centers other than Kyiv for the night (after 9:00, or later) which in turn causes other problems for the residence. Electricity s based on a 220 V and 50 Hz system (see Fig. 2-I), with two round prongs used in plugs.

Fig 2-I
Electrical



- **Water** is provided to residents in cities depending on quantity of supply. Kyiv has a constant supply of water, while Lviv has daily water rationing (water is provided at certain hours), but this in actuality increases consumption as residence attempt to fill there tubs for the day and empty full tubs when water becomes available. Hot water in many centers is shut off for the summer months. The sinks are either metal (see Fig. 2-J)or porcelain and tubs are either cast or metal.

Fig 2-J
Typical Kitchen Sink
(note washer)



- **Gas** is used in over 95% of stoves (see Fig. 2-K) and is brought in from Russia as Ukraine is not self sufficient in this commodity. In general there has been no shortage of gas and delivery has been adequate. Even when electricity is shut off and hot water not provided there is the gas stove which people use for heating of meals and water. None the less, gas is one of the major contributors to the foreign debt of Ukraine.

Fig 2-K
Typical gas stove



Construction technology systems and materials are continually being introduced from the west, but at a very slow pace. At first, materials and qualified installers were brought in at very high costs. Then, with foreign as well as local investment, quality materials were being produced in Ukraine. For example, concrete paving stone equipment was brought in from Germany for production in Lviv and Kyiv. In Kostopil a Canadian JV produces paving stone and concrete block. PVC windows are being produced in Rivno. However, local conditions have slowed this development in that foreigners are not eager to invest in this market.

2.5 Legal and Financial Infrastructure

The Communist regime had total control for matters of state. Land and buildings were fully constructed and owned by the state, and private ownership in Ukraine was non-existent, unlike Poland and other Communist countries who had some private ownership. Financial matters were regulated from Moscow, and banking was under full control of the government. Since 1991, this system has undergone a total re-orientation.

Ownership of dwellings has gone through a process of “**privatization**”, which evolved through what can be called “squatters rights”. People living in houses or suites were allowed to privatize the dwelling at nominal rates of equivalent to \$100 - \$500. Many have done so, and in turn sold these dwellings at markedly higher prices. The influx of foreigners provided stimulus to the rapid increase in housing costs, especially in Kyiv the capital and in turn to major city centers. In the early 1990’s a one or two room suite could be purchased for \$3,000 - \$6,000 and today the same suites can run from \$15,000 - \$30,000 (or more) depending on location and condition. Hyper inflation added to the increase in cost and almost all transactions were conducted in USD which retain value even through inflation. Rental costs went up in parallel especially for foreigners. Today rental costs are very high even by world standards in Kyiv, and are also high in other cities considering local residence pay the equivalent of \$30-\$70 per month and rent them to others for \$500 - \$2,000 (or more) per month. The ownership of dwellings and presently even land has been included in the privatization process is markedly different than in a western context. The ownership is a question of formal “**registration**” with a government authority. Preliminary consideration has been made to a land title system such as the Torrens system used in Canada. The engineering firm of UMA have presented the Torrens system as a pilot project in Kosiw District of the Ivano Frankivsk Oblast. To date there has been no formal acceptance of this or other land title system.

Financing as such for purchase of buildings is also unlike that of the west due to very high interest rates. Banks loan money today at 50-70% which is a decrease from fantastic rates of 300% and more. Such loans are taken (not very often) for short term deals where they act as bridge financing, usually for no more than one or two months. Financing of building structures is done principally in three ways:

- **Cash** for those fortunate enough to have it, and there is a segment (estimated 5-10%) of the 50 million population that has significant money and can afford to buy, renovate or purchase housing.
- **Incremental construction**, where portions of the building is constructed, and it progresses as material and/or money become available. This can be done over many years.
- **Barter**, where goods are exchanged for materials and services. For example a high rise housing project obtains cement (or other material) in exchange for giving the cement factory three or four suites at the end of construction.

2.6 Business Environment

One of the most difficult issues facing Ukraine is perception of the business environment. Such matters as corruption, crime, inflation, ever changing laws, draconian taxes, etc. etc. are the daily diet of mass media. There is no doubt that the rapid change from an authoritarian communist system to a democratic market based economy has resulted in many unsolved problems. These tend to be the focus for the media, but often don’t provide the total picture for a serious business person having consideration of entering a new potential market.

One can list and discuss the many negative and positive factors for business in Ukraine. These are best left to reports in the myriad of media such as "The Eastern Economist", "The Kyiv Post - Business", local papers as "Uriadovy Kurier (Government Courier), and others. One can also have a cursory look at who is doing business in Ukraine. One encouraging sign of business progress is the fact that there is representation of the two ends of the financial spectrum - McDonald's restaurants (five in Kyiv and growing) representing the low cost and the construction of a Hilton Hotel representing the high cost in financial consumer activity. Many other known firms such as Sony, IBM, Digital, Adidas, Playboy, Seagrams, Marlboro, and others are part and parcel of the infrastructure of consumer products.

It is true that smaller enterprises have not fared very well in general, but success stories exist - usually with little notoriety to avoid problems with "others" that may wish to share in the good fortune.

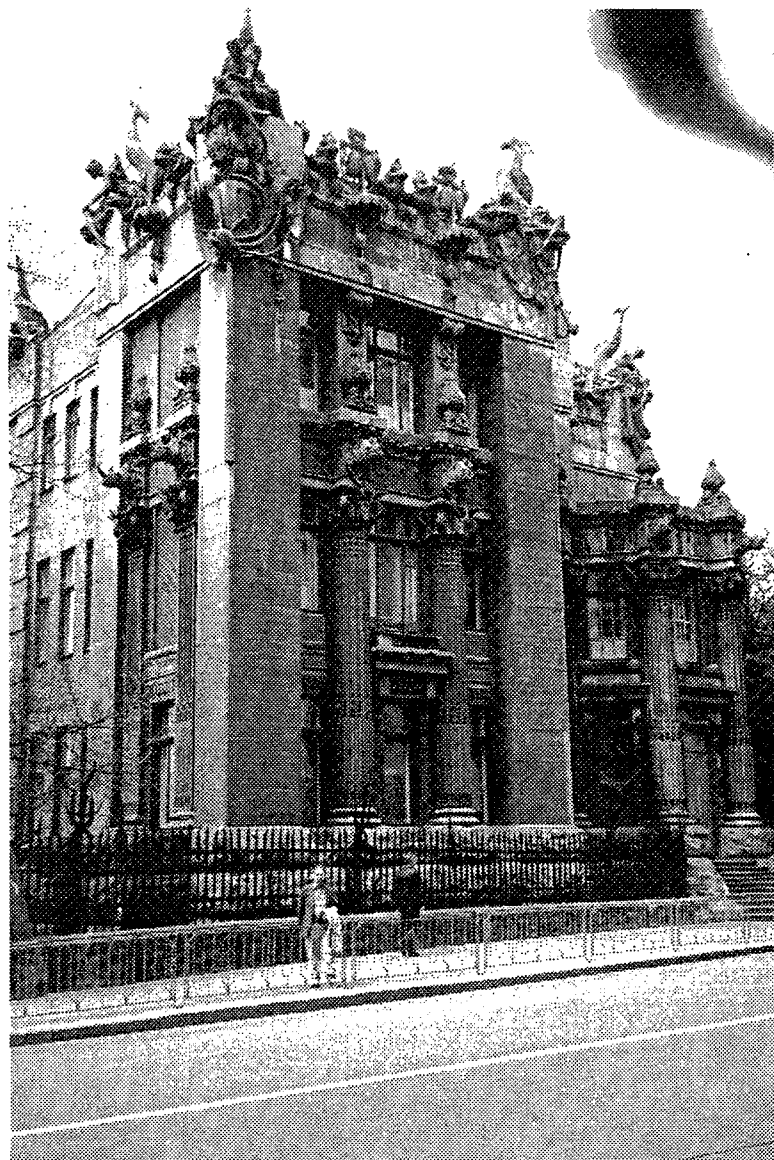
2.6 Canadian Construction Related Projects

Canadian companies have been very cautious in the initiation of new business ventures in Ukraine. Government support through the Renaissance Foundation and others have contributed to support of private initiatives. Most support has been done for major government to government programs such as "Rehabilitation of the Dnipro River - initially 5 million; Small Business and Economic Development in Ivano Frankivsk (SBEDIF) - 5 million, and others. Construction related projects have been few and usually through private initiative such as Oria West JV that produces concrete block and paving stone. During the visit of Prime Minister Cretien, a number of construction projects have been announced (see **Appendix 2**), including:

- Central Canadian Structures - three energy efficient homes in Dnipropetrovsk
- CMS Company Limited of Vancouver, export and distribution of Canadian made building products.

A general list of Canadian projects (companies doing business) in Ukraine has been published in the Canadian Monitor (see **Appendix 3**)

3.0 Kyiv



3.0 Kyiv

3.1 Brief History and General Information

Kyiv officially celebrated its 1500 years as a city, but archeological finds date back 2,500 years while some claim settlements up to 15,000 years back. Kyiv is the capital of Ukraine and throughout history it remained as the central authority for the country that has been occupied by many conquerors. The History of Ukraine (see section 2.1) is closely linked with the capital city.

Kyiv enjoyed the zenith of its power between the 8-th to 11-th centuries while being ruled by the Viking Princes that intermarried with the local Slavs. In 1240 Kyiv fell to the onslaught of the Golden Horde. After this, the city was ruled and dominated by many other countries/people - Lithuania, Poland, Russia, Turkey, Germany, and Austria-Hungary. It was only in the mid 17th century that the Hetman (military leader) of the free thinking Cossacks - Bohdan Khmelnytsky, won over a brief period of independence from the Polish feudal landowners. However, in 1654 Khmelnytsky signed a friendship treaty with Russia to secure further protection and in reality turned dominance of Ukraine to the Russian Czar. Only in 1918 after the Russian Revolution did Ukraine declare its independence that held for a brief three years. Since 1921 until 1991, Ukraine and Kyiv as its capital were held in the hands of the Communists that ruled from Moscow. During the years of the Second World War, Kyiv was occupied by The Nazi Germans but the capital of this region was then in Rivno (not Ukraine). Toward the end of the war, the liberation of Kyiv was a major operation with many casualties and Kyiv received the title of City - Hero, by the communist regime (a distinction held by only a few cities such as Leningrad).

The changes of the mid 1980-s including Glasnost and Perestroika were introduced by Gorbachov, the first Secretary of the USSR. The failed coup in August of 1991 resulted in the declaration of independence of Ukraine on August 24th, 1991 and the subsequent national referendum confirmed the desire of the country with Kyiv as its capital to break away from Moscow.

Kyiv has always had a special status as the capital. Formally, today Kyiv also has independent status as a territory (the other such city being Syvastopol of the Crimea peninsula) with a separate budget and major financial support from the national government. The city has many levels of authority - the office of the President with the Cabinet of Ministers, the Verchovna Rada (i.e. Parliament), and the mayor with a city council. The relationship to construction of these agencies varies with the federal government providing only construction policy with no direct financing and the city retains a budget for all construction.

Kyiv is known as one of the greenest cities in Europe. It's geography of seven hills provide a constant changing vista while the vast green cover of trees and bushes add to the low profile of the city's architecture. The city is divided by the Dnipro River (3rd largest in Europe), with a large central island that has extensive beaches and recreational areas. The city streets are wide, and the city is serviced by one of the best metro systems in the world (it carries 1.3 million people daily).

3.2 Housing

3.2.1 Types of Accommodations

The Second World War had left Kyiv with a great deal of devastation. The city was mostly destroyed by the communists themselves as documents now prove, (although the Germans were blamed for the destruction of buildings). Furthermore, many of the prominent buildings within Kyiv were dismantled or mined by the communist government as these buildings were a treat to the Russian communist ideology. Especially churches were destroyed but public buildings of historical significance were also obliterated.

The rebuilding of the infrastructure, especially housing began in earnest after World War 2. Today, there are some remainders of the building system left over by the communists, but independent builders are becoming

part of the new building industry. There are two “organizations” that generally looked after construction and these were:

- **Kyiv Proekt Bud**, typically designed housing
- **Kyiv Institutes**, designed unique projects such as the metro, urban plans, etc.

In addition, the responsibility for the construction of projects was carried out by:

- **Kyiv Mist Bud**, construction Company.

The dwellings in Kyiv can be divided into 5 distinct categories:

- **Dwellings built prior to 1917 - Russian revolution.** These dwellings (see Fig. 3-A) represent the rich and famous elite of the country at the end of the 19th and beginning of the 20th century. There are few of these dwellings left, reflecting the quality of Architecture and individual prestige of the ruling bourgeois.
- **“Khrushchovky”.** The small apartments (see Fig 3-B) were built; some having commercial space on the ground floor. A special program is presently being presented for presidential approval for the refurbishing of these buildings. In Central Kyiv ornate Mediterranean style buildings were constructed after WW 2 (see Fig 3-C).
- **“Series” Buildings.** These were built extensively in Kyiv to accommodate the increase in people coming from the country into the city to work in the industrial sector (see Fig. 3-D).
- **Recent Buildings.** Kyiv has experience a relative boom in construction as compared to other cities. This is especially true with expensive flats (see fig. 3-E). Architects do design individual dwellings, often utilizing foreign materials and technology.

Fig. 3-A

Arshaevsky House, 1907

House of the Weeping Widow



Fig. 3-B
Khrushchovky
1950's and 1960's Vintage

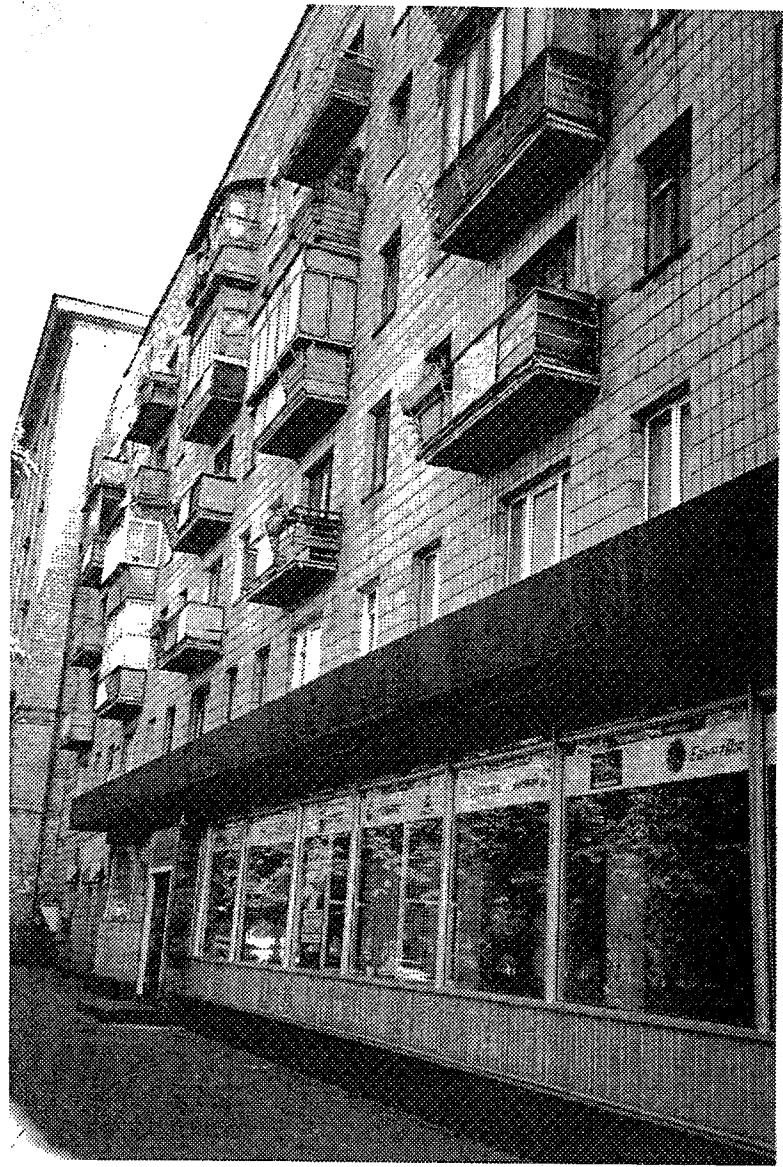
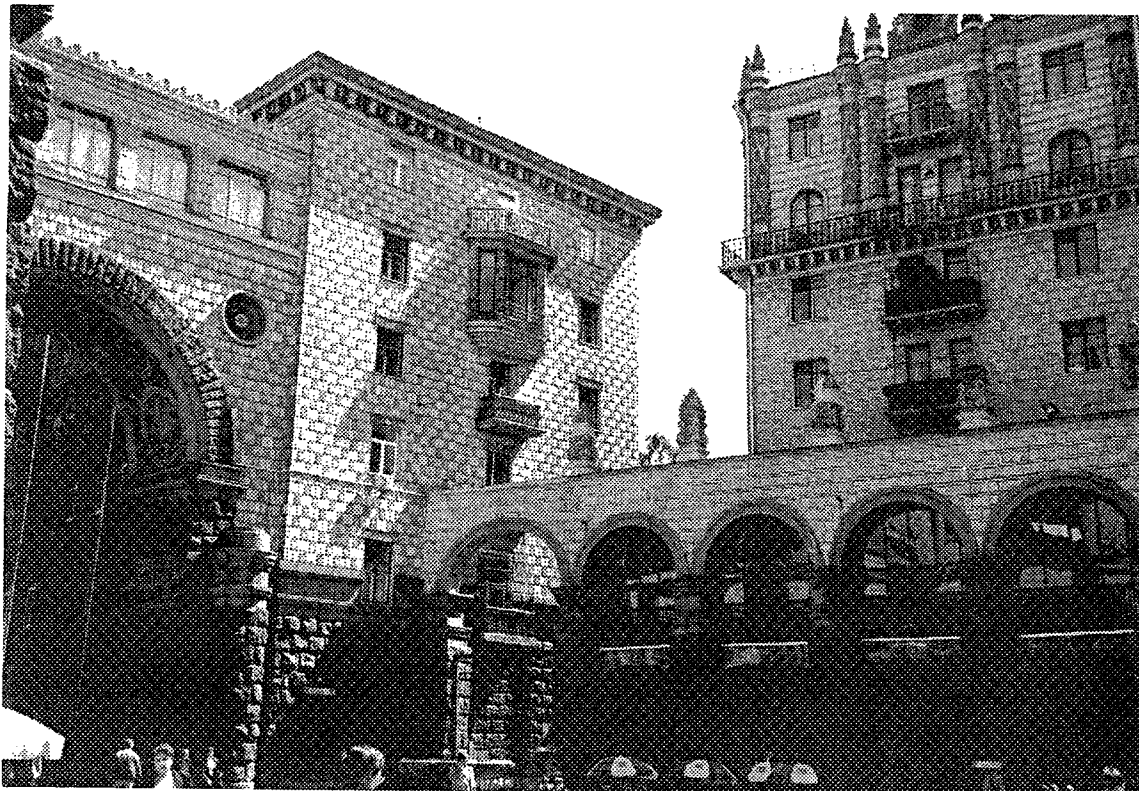


Fig 3-C
Central City Buildings
Mediterranean Style
1940's and 1950's Vintage



3.2.2 Construction Costs

Today (1999) cost of construction in Kyiv average between \$500 to \$1000 per square meter depending on location as well as actual finishes. In general the cost of construction is very high because of the influx of foreigners (western embassies, multi nationals (IBM, Coca Cola , etc.) businesses people, etc. Also there are many “new Ukrainians” (estimated at 1-5%), who have obtained substantial wealth in a short period of time.

3.2.3 Supply and Demand

The demand for housing is high due to a number of strong forces. First and foremost is the centralization of the national government and the related agencies that require accommodation. Usually there are funds to accommodate these workers. The large number of foreigners related to embassies and program personnel involved in assistance projects. Finally there are many new business developments that have the effect of attracting country dwellers to the large city for work, but this is one segment that does not have much money to secure accommodations - over 95% in apartment type suites of high rise buildings (5-15 stories).

3.2.4 Cost of Accommodations - Rental and Purchase

Rental of and average suite including all utilities runs at about 40-120 hryvny (\$10-\$30) per month (see fig. 3-F).

Fig 3-F

Note Expenses for month of May, 1999 of Central Kyiv Apartment (1 bedroom suite)

USD Equivalent		Площа: загальна 61.50 балкону 0.00 горища 0.00 Проживає 1 Пільга 0% Не має пільги			
		Послуга	Нараховано	Субсидія	До сплати
Suite Costs (Rental)	17.52	Квартплата/обслуговує	70.11		70.11
Cold Water	.70	Холодна вода	2.82		2.82
Central Heating	7.84	Центральне опалення	31.37		31.37
Hot Water		Гаряча вода			
Gas	1.12	Газ	4.48		4.48
Antenna	.28	Антенa	1.10		1.10
Radio	.13	Радіо	0.50		0.50
Dog		Собака			
Garage		Гараж			
Total	27.60 USD	ВСЬОГО НАРАХОВАНО	110.38		110.38
		Погашення боргу чи авансові платежі			
		ВСЬОГО ДО СПЛАТИ			
		Маєте борг - 305.29			

What often happens is that these suites (especially those in the city center) are renovated and sold or rented out at high rates. The rental cost of a suite can run an average from \$500 to \$1,500 per month; some are as high as \$5,000 to \$10,000 per month (see Fig. 3-G).


Fig 3-G

Rental Rates

Kyiv Post May 20, 1999

Note cost per month in USD

Jones East 8				
Type	m ²	rms	loc	\$pm
WestApt	80	2	Center	1,500
WestApt	100	3	Center	2,500
WestApt	120	4	Center	3,500
WestApt	171	5	Center	5,000
WestHos	220	5	Center	3,000



Key Realty

RENTAL SERVICE

R	Rms	loc.	sq. m	fl.	Furn.	\$pm
RENT	4	Khmelnitskoho B. St.	130	3	—	3.500
	4	Yaroslaviv Val St.	105	4	—	2.500
	4	Lvivska pl.	102	6	+	2.000
	3	Nezalezhnosti Maydan.	103	5	—	3.000
	3	Luteranska.	99	2	+	3.000

Call: 228-2776; 229-0690 Nadia or David Green

Purchasing a suite in Kyiv has increased since 1991 at a very rapid rate. Only in the last year have prices fallen in that demand for high cost accommodation has markedly decreased. Prices of \$100,000 to \$200,000 are rare but prices range on average is as follows:

- bachelor \$7,000 - \$10,000
- 1 bedroom \$10,000 - \$15,000
- 2 bedroom \$10,000 - \$25,000
- central city varies, but generally high costs between \$30,000 to \$400,000.

3.3 Contacts

The following are contacts of note:

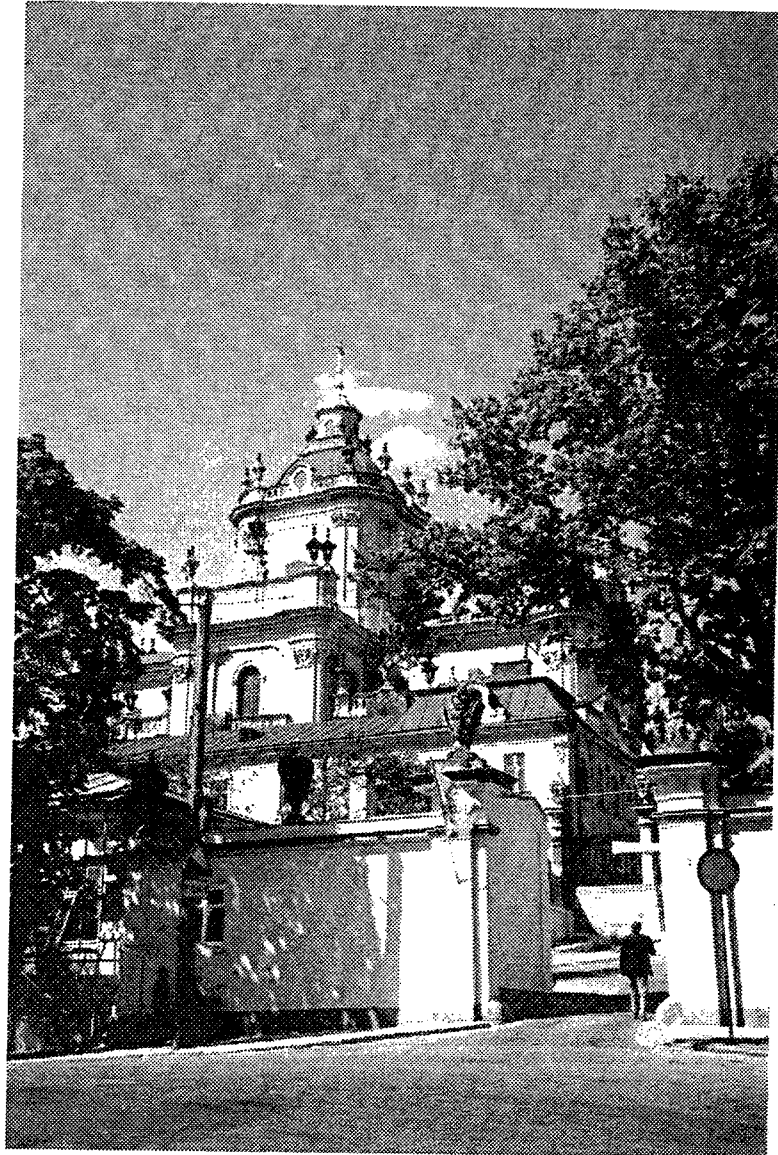
- Sergey Babushkin
Chief Architect of Kyiv
Ph. (044) 225-1025
- Peter Kupriy ***
Assistant Director, Kyiv Investment in Architecture Administration
Ph. (044) 224-8004
- Hryhory Semchuk ***
Deputy Chairman State Committee of Ukraine on Construction, Architecture, & Housing Policy
Ph. (044) 247-19-70

Private Sector Contacts

There are many new companies that start up and some continue and some close shop. The best source for current information in this regard is:

- Embassies (Canadian, American, and those involved in construction projects - Turkey, Poland, Germany), can provide lists of foreign construction companies.
- The City Architect can provide list of local construction companies and design firms that are best suited for the scale of the project.

4.0 Lviv



4.0 Lviv

4.1 Brief History and General Information

Officially the city of Lviv was established in 1256 by Korol (King) Danylo Romanovych for his son Lev, which means lion. The coat of arms for the city depicts a lion. As for Korol (King) Danylo he was actually a Kniaz as the title of Korol (King) was not known in the lands of Rus'. It was only after his brave defense against the Mongol - Tartar invasions that Danylo received a token of appreciation from the Pope in the form of a crown and thus became known as "Korol Danylo".

Lviv expanded briskly in the middle ages due to trade and had representation from many different ethnic groups. In addition to the peoples of Rus' (Ukrainians) there were Germans, Italians, Armenians, Greeks, Moldavians, Arabs, Jews, and most prominent the Poles. Lviv was known as "little Babylon". In the 1400's you even had Crusaders come through the City. Lviv was (and remains) a Cosmopolitan city. Two rows of walls (one high and one low) with a moat filled with water and ramparts were a formidable defense of the city.

Wars, fires and other disasters have been part of Lviv history. Polish influence and development has been primary in the middle ages right up to the 20th century. The Polish King built the central castle on the hill known as Vysoky Zamok (tall castle) and in 1630 the city numbered 4,000 people with over 12,000 on its perimeter. In the 14th century (1356) the "Magdeburg Pravo", gave the city its independence at this time that allowed retention of taxes for municipal projects and the self determination of their affairs. This gave the city relative wealth that was used often to pay ransom of various invaders.

Significant architectural development in Lviv occurred during the Renaissance of the 16 and 17 century. The church played a very important role at this time. Catholicism from the west and Orthodoxy were two factions in constant flux. This provided impetus not only for church architecture but also the building of schools, libraries, and other projects. In terms of architecture the medieval narrow streets with ornate facades is retained through the large city center. Baroque architecture enhanced Lviv further in the 18th century with such structures as St. Yuriy (George) Cathedral which is still in use.

Partition of Poland in 1772 had left the western lands of Ukraine including Lviv in the hands of the Austro-Hungarian empire. City borders were extended outside the fortifications, new residential districts were formed, and a multitude of administrative and public buildings were built. Lviv then became part of Poland at the end of World War 1 although there was resistance from Ukrainian population. The German-Russian pact of non-aggression signed by Reibentrop and Molotov in 1939 has Lviv become part of the Soviet Union until 1941 when the Nazi war machine invades Russia. At first the many Ukrainians (especially those of western Ukraine), support the Nazi takeover as liberators. Elation gives way to disappointment in the face of atrocities and the formation of the insurgent army of UPA that fights both the Russian (and Ukrainian) Communists and the German Nazis. Soviet forces take back western Ukrainian territories in 1944. This provides total control and development by the Soviet government until 1991.

Today Lviv has undergone a revival that can to that of the capital Kyiv. In 1998 it received from a government review commission the "Most Beautiful City in Ukraine" Award. In May 1999 the city is holding a Summit with 8 European presidents in attendants. In 1975 the city historical center (120 ha) has been declared as a National Historical-Architectural Reserve and proposed to be inscribed on the UNESCO List of World Heritage Cities. Lviv has 9 theaters, 20 museums 119 libraries, 11 colleges, 3ademies, 40 research institutes and over 180 factories (many not operational). Housing the 830,000 residence is still a major priority as building stock (especially from the communist era) is quickly deteriorating.

4.2 Housing

4.2.1 Types of Accommodations

Until independence, Lviv had an active construction industry. Yearly the construction of living space in the 1980's amounted to 500,000 square meters compared with less than 50,000 square meters today.

Construction was done by central building organizations that had separate functions:

- **Lviv Prom Bud**, build only industrial buildings
- **Lviv Gytlo Bud**, was responsible for brick apartment buildings
- **DMK #1 (Dom Budyvny Kombinat - House Building Co-op)**, did panel buildings at a rate of about 180,000 square meters per year.
- **DMK #2 (Dom Budyvny Kombinat - House Building Co-op)**, was initiated in 1989 but built only about 20,000 square meters.

The dwellings as in other major cities can be divided into 5 distinct categories:

- **Dwellings built prior to 1945 - Russian takeover.** These dwellings (see Fig.4-A) are all in the city center intermingled with newer structures. There are few of these dwellings left, reflecting the quality craftsmanship of Renaissance trades and artisans.
- **"Khrushchovky".** The small apartments (see Fig 4-B) are still utilized but comprise a very small percentage of the total building area.
- **"Series" Buildings.** These were built extensively in Lviv but height restrictions were imposed on architects and city planners. "Series - 65 were brick" (see Fig. 4-C), "Series -84 were panel" (see Fig. 4-D). You will note that these numbers may vary from project to project but in essence they were standard for the whole Soviet Union.
- **Recent Buildings.** Lviv has relatively little construction today with only 35,000-50,000 square meters of yearly being built - less than 10% of 10 years back. The quality of these buildings compares (see Fig. 4-E) with the west but still requires better detailing and finishing.
- **Private Buildings.** Architects do design individual dwellings, often utilizing foreign materials and technology (see Fig. 4-F). These are very few - less than 1% of housing stock.

Fig 4-A

Dwellings prior to 1945
Early 1900's Vintage



Fig 4-B
Khrushovky
1950's - 1960's Vintage

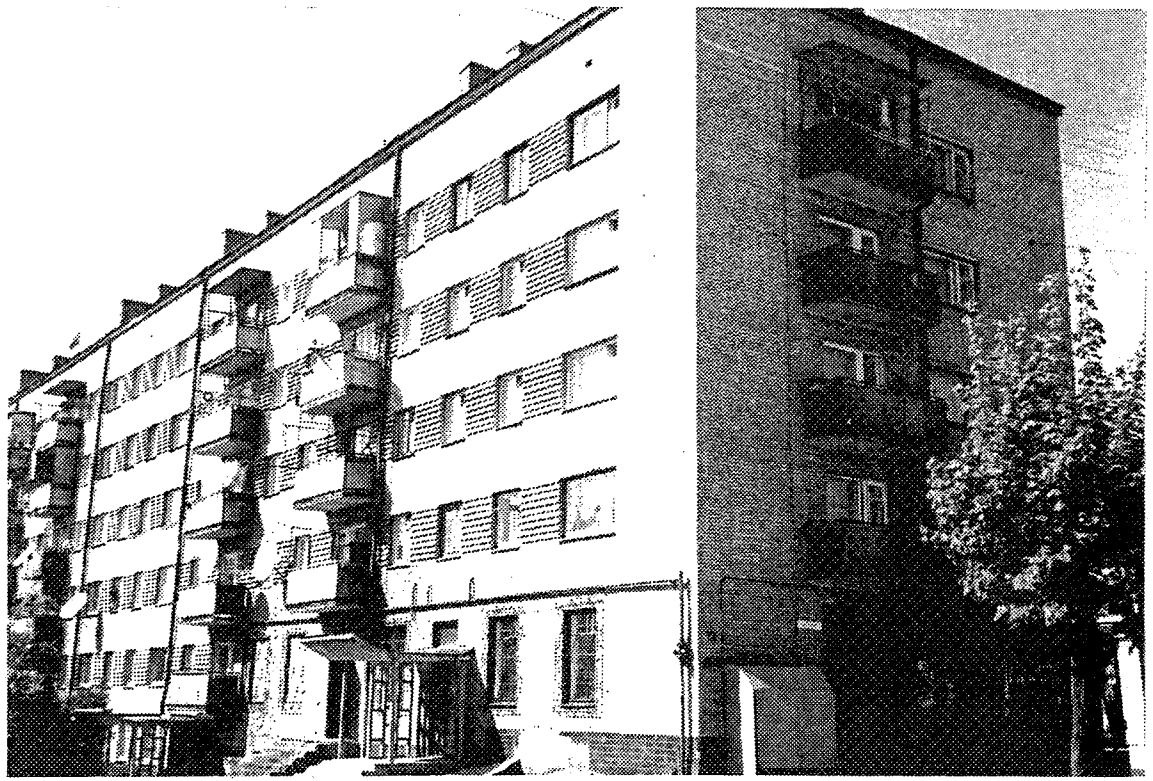


Fig. 4-C
Series Buildings Brick
1970's - 1980's Vintage



Fig 4-D
Series Buildings Panel
1980's Vintage



Fig 4-E
Recent Buildings
mid to late 1990's Vintage



Fig 4-F
Private Buildings
late 1990's Vintage



4.2.2 Construction Costs

Today (1999) cost of construction on average is between \$150 to \$250 per square meter (lower than Kyiv but higher than Ivano Frankivsk). A turn key cost for an average dwelling is 700-900 hryvny (\$180-\$250 USD) per square meter. An average suite of two bedrooms - 60 square meters will cost about \$12-\$13,000.

4.2.3 Supply and Demand

The demand for housing is very high because of two factors; firstly the growth of the city and secondly the inadequate present housing stock.. The prices for construction (especially labor) costs are very low. However, the means for payment (as the majority of people earn little) has held back significant projects.

4.2.4 Cost of Accommodations - Rental and Purchase

Rental of an average suite including all utilities runs at about 50-90 hryvny per month. This is a large sum for people earning about 100 hryvny officially or receiving a pension of about 60 hryvny. Subsidies certainly assist many people. However non payment for accommodations is very common especially since many people also do not obtain their monthly salaries and pensions on a regular basis, sometimes with delays from 2 to 12 months.

Although the demand for space is still high - the people that can afford space has diminished significantly. The result has been less construction as well as lower and actually more competitive prices. Two bedroom suites that sold for 15,000 - \$20,000 USD a few years back are being sold for \$10,000 - \$15,000 today. New construction is handled by a 20% down payment and the balance is spread over 11 months. Thus, new

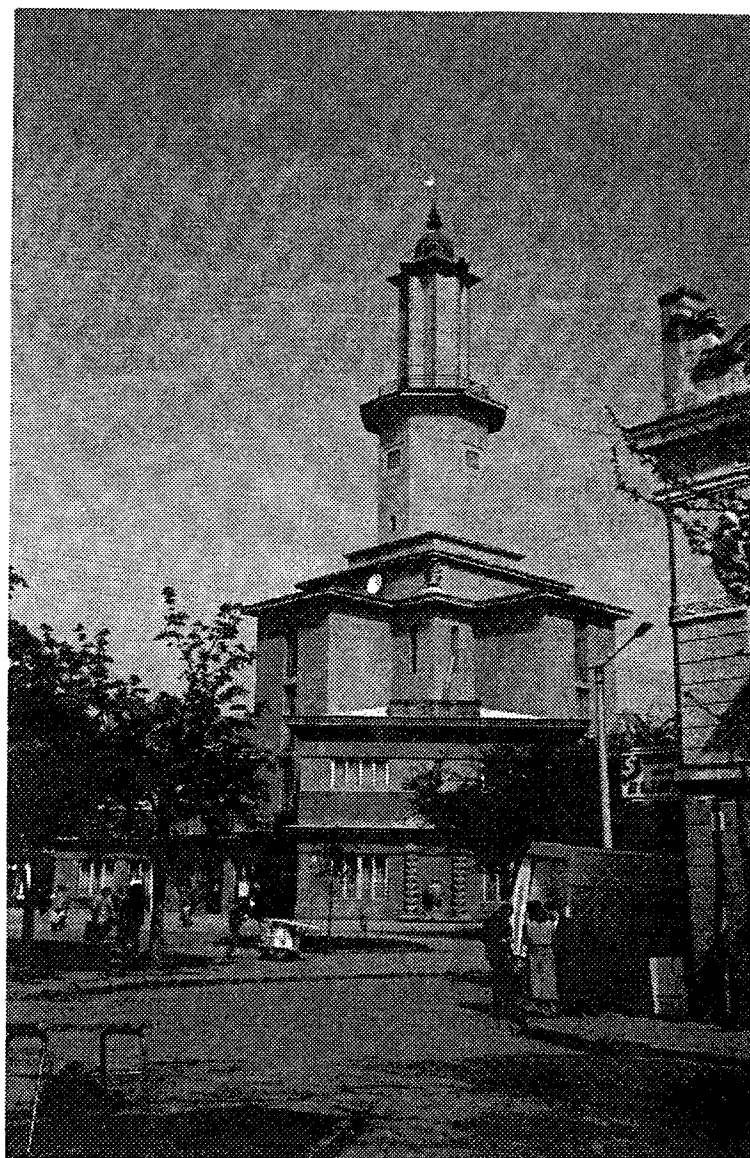
construction of an average suite (unfinished) that will cost \$12,000 takes \$2,400 down and a monthly payment of less than \$1,000. Thus the suite is paid off within one year Finishing may cost another \$10,000.

4.3 Contacts

The following are contacts of note:

- Volodymyr Shvetz ***
City Architect
Ph. (0322) 97-59-63
- Volodymyr Darahanov ***
Director
Karpatbud (Major Construction Company)
Ph (0322) 42-81-33
Fax. (0322) 42-82-24
- Volodymyr Khorzhevsky ***
Director
Electron (Construction Company)

5.0 Ivano Frankivsk



5.0 Ivano Frankivsk

5.1 Brief History and General Information

Ivano Frankivsk was founded in 1437 as a small village called Zabolottya and became a city officially in 1662 by order of the Polish magnate Andrij Pototsky who was the owner of the lands since 1660. He named the city after his son Stanislav. The name Stanislav was retained until 1962, when on the 300-th anniversary the name was changed officially by the communist government to Ivano Frankivsk, after a renown Ukrainian writer and radical Ivan Franko.

The history of the city is one of growth and change through difficult times. Different ethnic groups occupied the city with Poles comprising the majority until after World War 2. The city also had a large Jewish population and Armenians. Ukrainians lived mainly in surrounding villages. Wars and revolts by the Ukrainian peasants, cholera (1831) and major fires were all part events that had an influence the development of the military fortress city. Invasions by Turkish forces in the 17th century and the adherents of the Polish king August backed by Russia's Peter the Great devastated the city structures. Under Austro-Hungarian rule the city ramparts were destroyed in 1802. In the 1870's Stanislav was proclaimed a "free city" opened to all. In the twentieth century Stanislav survived the two world wars with little physical destruction but experienced the rapid political changes and occupation by Nazis Germans in 1941 and Soviet Communist takeover in 1944.

After 1945, there was a major emigration Polish residence (living in Stanislav and other cities in western Ukraine) to Poland and the city grew rapidly from a 50,000 to 250,000 residence today under the communist political structure. During this time the city was "closed" with no access to foreigners because of the military bases and nearby strategic missile sites in the Carpathian Mountains. Gorbachov opened the era of "perestroika" in 1988 which eventually provided independence to Ukraine in 1991. Ivano Frankivsk retained its status as the Oblast center with all major government offices.

5.2 Housing

5.2.1 Types of Accommodations

There are five basic types of dwellings similar to Lviv but smaller in scale and quantity.. These include:

- **Dwellings built prior to 1945 - Russian takeover.** These dwellings are all in the city center intermingled with newer structures. There are few of these dwellings left although they were not destroyed during the war effort. In style they remind one of Viennese-Austrian architecture (see Fig 5-A)with baroque elements in the facade of buildings as well as the more introduction of functional formalism with little decoration.(see Fig 5-B).
- **"Khrushovky".** The small apartments built during the 1950's comprise about 15% of the housing stock and are similar to those in Kyiv and Lviv (see Fig. 3-B and 4-B). They are not popular due to their size and age.
- **"Series" Buildings.** The larger housing units were built in the late 60's and 70's from brick and later from concrete panels. These are of better quality and much larger than the "khrushovky" They have series #'s such as "Series - 87 were brick" (see Fig. 5-C), "Series -96 were panel" (see fig. 5-D) and alterations had different numbers. Technically this housing stock is still of poor quality.
- **Recent Buildings.** Housing stock is still being developed with newer high rise buildings (see Fig 5-E). However, these number few and are built as on the co-op principal were the capital costs are paid by the "client" wanting a suite with 20% down and the balance with equal monthly installments over a one year period.
- **Private Buildings.** The well to do, higher architects to design individual dwellings, often utilizing foreign materials and technology (see Fig. 5-F). These are very few are often build at the edge of the city or outside the city limits.

Fig 5-A

Dwellings prior 1945
1900's -1930's Vintage



Fig 5-B

Formalism prior 1945
1933 Vintage



Fig 5-C
Series Buildings Brick
1970's - 1980's Vintage



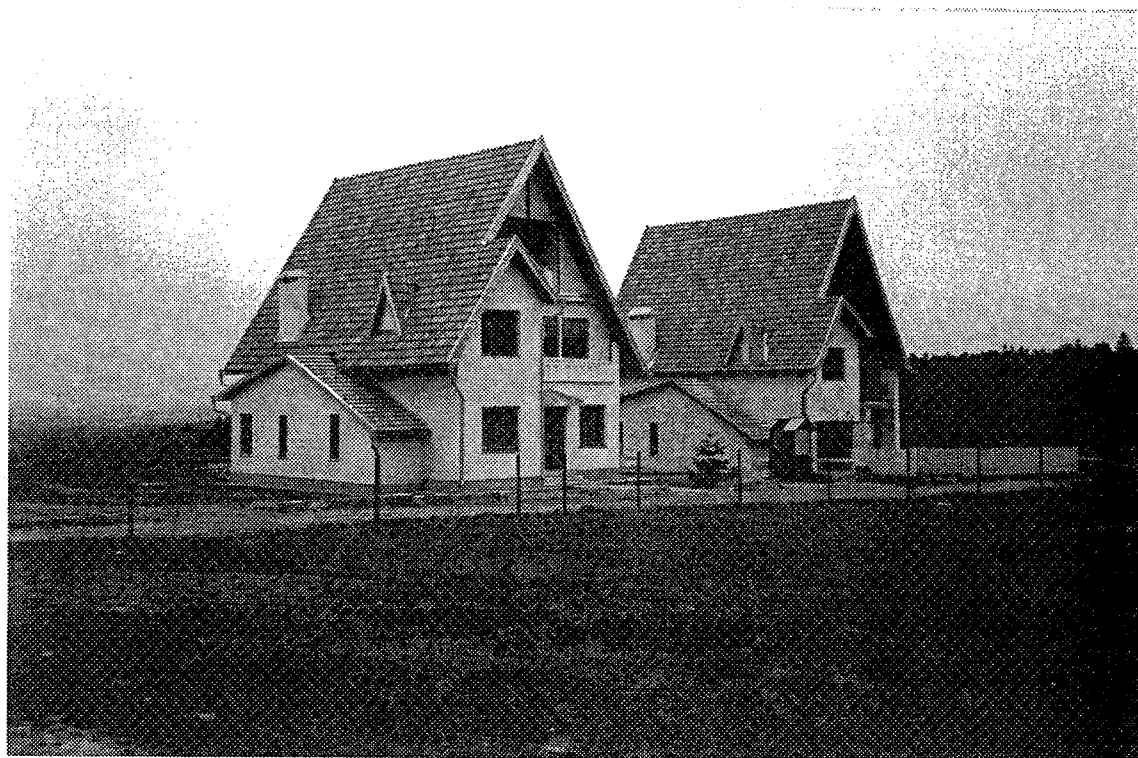
Fig 5-D
Series Buildings Panel
1980's Vintage



Fig 5-E
Recent Buildings
Late 1990's Vintage



Fig 5-F
Private Buildings
(outside of Ivano Frankivsk)
late 1990's Vintage



5.2.2 Construction Costs

Today (1999) cost of construction on average is between \$100 to \$150 per square meter but is difficult to assess properly because many items are obtained on a barter system and payments are often deferred. A turn key cost for an average dwelling is 700-900 hryvny (\$180-\$250 USD) per square meter. An average suite of two bedrooms - 60 square meters will cost about \$12-\$13,000, and is paid for within one year.

5.2.3 Supply and Demand

Independence in 1991 stimulated construction and the whole idea of attaining larger and better living space. in Ivano Frankivsk. Those that had means (capital or in positions of power) have quickly satisfied the need for better living quarters by buying or building. The need is still high, however the supply is tempered by the reality of insignificant financial independence - see 5.2.5 Cost of Accommodation.

5.2.5 Cost of Accommodations - Rental and Purchase

Rental of an average suite including all utilities runs at about 50-90 hryvny per month. This is a large sum for people earning about 100 hryvny officially or receiving a pension of about 60 hryvny. Subsidies certainly assist many people. However non payment for accommodations is very common especially since many people also do not obtain their monthly salaries and pensions on a regular basis, sometimes with delays from 2 to 12 months.

Although the demand for space is still high - the people that can afford space has diminished significantly. The result has been less construction as well as lower and actually more competitive prices. Two bedroom suites that sold for 15,000 - \$20,000 USD in 1995/96 are being sold for \$10,000 - \$15,000 today (1999). New construction is handled by a 20% down payment and the balance is spread over 11 months. Thus, new construction of an average suite (unfinished) that will cost \$12,000 takes \$2,400 down and a monthly payment of less than \$1,000. Finishing may cost another \$10,000.

5.3 Contacts

The following are contacts of note:

- Olexandr V. Mykuliak ***
City Architect
Ph. (03422) 239-28
- Myroslav S. Melnyk ***
Director
Ivano Frankivskbud
Ph (03422) 405-32
Fax. (03422) 433-90
- Andriy Sobolevskyy ***
Head of State Registration and Entrepreneurship Development Department
City of Ivano Frankivsk
Ph. (03422) 519-76
Fax (03422) 325-54
- Alexander Pasichnyk (see 5.4) ***
Acting Director
Ph (03422) 520-22
Fax (03422) 591-56
EM rkomar@sbedif.if.ua

5.4 Projects to Note

SBEDIF (Small Business and Economic Development Ivano Frankivsk) is a CIDA project of \$5,000,000 that has a term of five years ending in the year 2,000. An extension of the project is being considered. The project has Canadian staff as well as Canadian consultants living either full time or on short terms in the city and

carrying out various tasks. The previous Director Jerry Kretsell had discussed the possibility of constructing accommodations for westerners and making the exercise a demonstration project of Canadian technology, (See Fig 5-G).

Fig 5-G
Letters from Project Director
1998

Date: Thu, 12 Nov 1998 19:38:15 +0200

Dear Mr. Yarema Shulakewych,

The SBEDIF Business Center in Ivano-Frankivsk has been operating the business center here for the past two and a half years. We currently rent 6 apartments in Ivano-Frankivsk for the benefit of Canadian staff who come here as trainers, consultants and volunteers. I am living in an apartment year round.

Mr. Volodymyr Satur had mention to me several months earlier that their was interest from Canadian parties to consider building a house in Ivano-Frankivsk to western standards. I am sure that housing based on western standards would be more energy efficient and practical in design and construction than the brick and cement structure that are currently being built in our community.

The SBEDIF Business Center would definately be interested in supporting the construction of such a housing unit. I believe it would be an excellent demonstration of new construction technology, utilize local resources, as we have an abundance of lumber and workers in our area. If such a housing unit were to be built in Ivano-Frankivsk, the Business Center would consider it in relation to our current housing units.

Best regards,

Jerry Jaroslaw Kozubal
Director, SBEDIF Business Center

Date: Fri, 13 Nov 1998 21:18:25 +0200

HI Yarema,

As a thought in building this house, the project could include a training component as there seem to be few skilled trades men with skills in using modern building materials..and tools.

You could train framing crews, plumbers, electricians, drywallers, carpet and flooring trades, and roofing.

I know it would be quicker just to bring an experienced crew, but there is a real need for trades training in Ukraine, especially in Ivano-Frankivsk. This would be a good way to get some training done, get endorsement from the workers who would see the technolgy and how to do it, and there would be a trained workforce for the next construction project. It would also be cheaper for labour the second time around. Ivano-Frankivsk is alos noted for having the lowest wage rates in Ukraine. You would be able to use building crews from IF and they would be mobile for construction anywhere in Ukraine or eastern Europe.

For your information,
Jerry

6.0 General - doing business in Ukraine

6.0 General - doing business in Ukraine

Ukraine has been part of the central economy of communist Russia for almost 70 years and the effects are evident. Whereas, such countries as Poland, Hungary, Czech Republic and others also had communist governments but they also had some degree of private ownership as well as access to the west. These countries have made very significant progress in terms of material growth. The net result for Ukraine is a major need in all commodities, especially in the construction industry. The import of Canadian products, technology, and the possibility for manufacturing in Ukraine are real **BUT** certain precautions must be taken to avoid failure.

What is it about Ukraine that makes investment attractive?

- Good geographic location, with access by sea and rail. Also access to major border markets such as Russia, Europe the Middle East.
- Low cost of labor.
- Highly skilled and educated labor force.
- Abundance of natural resources. Ukraine only lacks oil and gas which it gets mainly from Russia.

However, doing business internationally and particularly in Ukraine requires sensitivity and knowledge of that environment. here are some suggestions:

- Prior to embarking on a project become familiar with Ukraine and doing business in that part of the world. (See Appendix A for reference books)
- Speak to the Canadian Embassy in Ukraine regarding your project and solicit their help and advice.
Mr. Larry Duffield, Counsellor (Trade)
tel.011 - 38 (044) 464-11-44 fax. 011 - 38 (044) 464-11-31
- Speak with others who have done business in Ukraine, and evaluate both the **good and bad** experiences.
- Determine how you will develop your project and market and obtain local legal advice as to registration. The business can be a JV (Joint Venture), a branch office, a Ukrainian Company, etc. Each type of business has different implications regarding taxes, registration costs, and bureaucratic procedures. For example:
 - A JV can have a tax holiday with a minimum contribution (50,000 in 1991 but today it is half a million in equipment and/or money) to the company founders fund. The foreign partner is also protected by the Foreign investment Protection Act of 1991 (See Fig. 6-A), with revisions of Law # 1 dated 13.03.1992, Decree 20.05.1993, and Law #2 19.06.1996.
 - A branch office can receive funds and/or equipment from the parent company (in Canada) for corporate use only without it being considered for taxes or custom costs.
- Partnerships with Ukrainians should (must) evaluate with whom you will be doing business:
 - The partner **must put in some assets** (preferably money), so that he has a real stake in the venture.
 - Get references.
 - Check out track record on other projects.
 - Do all formal agreements in writing.
 - Do not transfer any funds until there is a clear understanding as to the obligations and benefits of the project. These should be registered, which will mean dealing with the question of registration, seals, witness by notary public, legalization of documents in the embassy, etc.
 - Check if there are any bad debts, judgments, taxes due (kartoteka), that the partner may have.
- Have your personal representative on site at the project offset. The term for this may vary depending on the success being generated.
- People in this region have lived under a different system with different values and financial restrictions. Making a profit in a communist society had a negative connotation and the attitude to

money and doing business are different than those of the west. Understanding this and being sensitive and vigilant are key to successful business dealings.

- Determine in advance the strategy of getting your profit - transfer of funds, dividends, fees, etc.
- There is much incentive to deal in the shadow economy as taxes are very very very high. Determine how you will deal with this, as the company can show no profit and yet there may be a great deal of income that you may not know about. Implications of illegal activity should be avoided.
- The concept of “**Krysha**” or “roof” - protection or insurance is used extensively for successful business which usually attracts “others” who wish to share in the success. Simply put a “Krysha” is a group that can be relied on for assistance when someone tries to cause the company (or its employees) harm.
- The concept of “**Mohorych**” or “thanks by repayment” is often understood and a clear policy in this regard should be set to avoid misunderstanding

Fig 6-A
Foreign Protection Act.

THE FOREIGN INVESTMENTS PROTECTION ACT

ARTICLE 1. The investments, profits, legal rights and interests of foreign investors in the Ukraine are protected by the state law.

ARTICLE 2. The foreign investors must observe to the law of the Ukraine and do not harm to the state, social and the economic interests of the Ukraine.

ARTICLE 3. The state can't requisition foreign investments with the exception of natural calamities, accidents, epidemics, epizootics. The decision about requisition of the foreign investments is adopted by the government of the Ukraine. A compensation for the foreign investor in this case must be adequate and effective.

ARTICLE 4. The foreign investors have guarantee that their profits and others sums in roubles or in the foreign currency, received on the base of the law can be transferred abroad.

ARTICLE 5. The foreign investors may reinvest their profits in the Ukraine.

ARTICLE 6. The foreign investors pay the taxes, prescribed by the law of the Ukraine.

ARTICLE 7. The Government of the Ukraine up to 17 th of september 1991 must prepare and propose for Supreme Soviet of the Ukraine proposition about the list of activity, which is made by the foreign investors in accordance with the special license and the procedure of this licence.

The Chairman of the Supreme Soviety
of the Ukraine
L. Kravchuk

Kiev, 10th of September,
1991.

Market Entry has to be evaluated by the individual company/individual as to the assets (money and equipment) required as well as the personal involvement in the project which is far away from home base. Generally, projects take a long time to formulate and start-up. This requires foreigners to have personal supervision (company representative) for much of the initial development. In this way the project and its funding has control that is needed and a system can be developed over time that will be successful in terms of profit, management, and project development.

7.0 Opportunities in Ukraine - technology and construction

7.0 Opportunities in Ukraine - technology and construction

The construction and housing industry in Ukraine has a high demand for Canadian (western) quality products. The major problem is payment because of a small middle class with substantial earnings - less than 5% make over \$200 per month (See Fig 2-D). However 5% of 5 million is still a substantial amount of people (and they earn much more than \$200). At the same time the debt of the general population is close to zero - almost nobody has a mortgage or debt of any kind. Most transactions are on a direct payment basis. Thus there are pockets of wealth and niche markets for quality products. The local products are no longer accepted unless they meet quality standards. The local saying is “we are too poor to afford cheap products”.

- **The Process**

Construction in the Soviet System was centralized in two organizations - one was responsible for the Design and Engineering the second was responsible for Construction. the Design organization was usually and “Institute” that provided all the drawings and specifications. A City Architect did the final approval of the project. The Construction company - called by the name of the city with the appendix “**Bud**” - meaning to build, (e.g. Lviv Gytlo Bud or Kyiv Proekt Bud) was responsible for the actual construction. Today this system is in **transition**. The actual former structure still exists but also has the added complexity in having private architectural and design firms that also provide design services and private companies also do construction. The City Architect (and his office) is the final authority on approving projects.

There is also the political component in the construction industry. The elected officials (city mayor, etc.) also provide direction/instruction as to what is to be built. These offices work closely with the City Architect’s office and provide funding as required. One last organization that deals with housing construction is the State Committee of Ukraine on Construction. This body does not provide any funding or approval but formulates global policy of what is to be built.

- **The Market**

The market is in transition for products (individual materials to building systems to actual houses) that were provided by a state run industry. Usually these products were made by one or a handful of factories in the Soviet Union (for example you had plywood made in Kostopil Ukraine). These factories would supply the whole Soviet Union with this particular product and other products would be obtained in other factories that would also produce one or two product. Some of these large companies have been privatized and produce what the market requires. However most of these factories because of outdated methods, bad quality of product, mismanagement or just lack of working capital have stopped operations. The construction of housing has been a low priority and thus significant construction is but a fraction of what it was or what is needed. For example the City of Lviv Director of Karpatbud - Construction Company estimates that construction is down to 35-50,000 sq. meters per year or 10% of the construction that was being done 10 years back. The low priority in housing coupled with the high costs of construction are the major contributors to the general slow down. However this has not diminished the need for housing in general nor has it stopped construction for the few (but significant number of people) that have money.

- **The Client (Consumer)**

Accommodation that is acquired is usually an apartment suite (individual houses are few in cities) and as a rule are in a high rise panel or brick building. Many of these suites were part of the housing stock that belonged to the federal government prior to 1991. For the past decade individuals who have been living in these apartments have been allowed to privatize (become owners) for minimal sums of money (less than \$500). Subsequently, others that wish to purchase such suites, can do so from private individuals. The prices vary depending on the city, location within the city, area of suite, finishes, etc. The costs for Kyiv, Lviv, and Ivano Frankivsk have been described in the respective chapters.

Clients can also have their suites built by companies putting up high rise apartment buildings. Financing of such suites is done on both a cash and/or barter system. The cash requires a minimum 10% down payment and 10% per month so the apartment is paid off within a year. The barter system has the client (or his employer) provide materials (such as bricks) in exchange for a suite. Much of the payment for construction is deferred by not paying the workers and suppliers on time. The suites are usually unfinished as this requires additional costs. The interiors are then completed (including millwork, finished floors, painting, enclosing of balconies for additional space, etc.) by the client who acquires the apartment, over time as money becomes available or the finishing is done by the new owner himself.

- **Building Materials**

Builders and Architects that were interviewed have repeatedly emphasized the need for any energy conservation products This includes:

- insulation
- windows
- doors
- caulking
- etc.

Safety and protection products are also in high demand, including:

- hardware
- security systems - alarms.

Products that simplify construction

- gypsumboard (drywall)
- building tools (remember 220 volt power)
- paints and stains
- heating equipment - furnaces, hot water tanks
- quality fixtures

New and unique products

- hard surface products (Corion and alike)
- roofing - metal, concrete, etc.
- siding - vinyl, metal
- awnings

The above materials are being introduced into Ukraine. However, the cost of such materials is presently high.

There are a number of reasons for this -

- little competition, few companies bring in western goods and there is little local manufacturing of such goods.
- there are many added costs to bring in products, such as customs, VAT, transportation costs, insurance, etc.
- technical people are not fully aware of what is available in the construction industry.

New products also have to undergo a process of certification, which means that they are extensively tested to meet a standard of performance set by the government. What this also means is that if there is no standard then a testing process must be put in place which in the end means additional money and time.

- **Technology**

There may be products-systems that do not have much marketability due to acceptance, customs, or local products suffice. It is important to understand that the system of construction is masonry (not wood). Brick assembly of walls is standard in all major construction. However insulation has not been used in walls and standard western cavity walls are just being introduced. Wood frame houses are considered inferior in that they are considered as "village huts" that have no fire protection and are not strong - the tale of the three pigs comes to mind. The local brick is of inferior quality and it is delivered by truck to the site (not on pallets) resulting in much breakage.

Structural components are from concrete with hollow core floors. These however are not pre-stressed so that the depth of the floor structure is a minimum of 12 to 14 inches (300-350 mm). The joints are uneven and require leveling.

The heavy construction of brick walls and concrete floors require the use of cranes even for one and two story structures.

Also there are certain accepted finishes in construction. Wood parquet floors are prevalent and wall to wall carpeting is rarely used. Gypsum board is only being introduced and this trade is unknown in Ukraine. Installers, tapers, and finishers have to be brought in.

The good source for specific market information, which varies with each product and system, is the office of the City Architect. Each major Oblast center has such a position.

8.0 Bibliography

8.0 Bibliography

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January 25, 1999

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April 9, 1999

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9.0 Appendix

9.1 Recommended Reading - Publications

9.2 Canadian Ventures in Ukraine, Canadian Monitor winter 1998

9.3 List of Business Initiatives Announced in Kyiv, Ukraine Jan.28, 1999 - Prime Minister Chretien Visit.

9.1 Recommended Reading - Publications

Frishberg & Partners

Ukraine's Legal Specialists

PUBLICATIONS:

Articles:

1. Practical Guidelines to Doing Business in Ukraine
2. Everything You Ever Wanted To Know About Doing Business in Ukraine (But Were Afraid To Ask)
3. The Foreign Investment Legislation
4. Law "On Foreign Economic Activity" and Import-Export Contracts
5. The Fourth and Hopefully Final Law "On Foreign Investment Regime," As Once Again Amended on October 23, 1997
6. Foreign Investment Trends in Ukraine
7. Ukrainian Company Law
8. Most Commonly Used Business Forms: Non-Resident and Resident Companies, Joint Investment Agreements
9. Registration Procedure
10. The Most Common Anti-crisis Measure: Reducing the Workforce
11. Personal Income Taxation
12. Ukrainian Labor Laws and Hiring Procedures
13. Ukrainian Company Taxation and Profit Repatriation Rules
14. Ukrainian Import Taxes: Value Added Tax, Excise Tax, Customs Duties, Licenses and Labels
15. The Value Added Tax
16. Ukrainian Monetary Reform: From Coupon to Grivna's Convertibility
17. Ukrainian Currency Regulations
18. Debt Financing: Procedure For Obtaining Foreign Currency Loans From Foreign Creditors
19. Commercial and Residential Real Estate
20. Joint Ventures With State-Owned Enterprises
21. Ukrainian Privatization Programs: Yesterday and Today
22. Options for Establishing Local Production Facilities
23. Post-Privatization Investment and Due Diligence
24. Ukrainian Code on Land
25. Industrial Land Lease in Ukraine: Yesterday and Today
26. Privatization (and Leasing) of Industrial Land
27. Securities Regulations
28. Financial Intermediaries
29. Securities Traders, Brokers And Dealers
30. Ukrainian Stock Exchanges, Professional Associations, and the SSMSG
31. Intellectual Property
32. Ukrainian Insurance Industry
33. Franchising and Leasing in Ukraine: Alternative Business Relations
34. Secured Transactions (Collaterals)
35. Law "On Bankruptcy"
36. Reorganization and Bankruptcy of State-Owned Enterprises
37. Ukrainian Arbitration System
38. Enforcement of Arbitral Awards in Ukraine Involving Cash, Personal Property and Real Estate

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9.2 Canadian Ventures in Ukraine, Canadian Monitor winter 1998

Partnerships & Joint Ventures

Update on Canadian Businesses and Partnerships in Ukraine

CANADIANS VENTURE BOLDLY

The Monitor continues its periodic listing of Canadian companies and organizations that deal with Ukraine. For additional information on products and services, readers can deal with these companies directly, or contact the Canadian or Ukrainian embassies.

COMPANY	TYPE	LOCATION	PRODUCTS/SERVICES
AGROCOMPLEX (Cdn. partner EFREM ENTERPRISES LTD.)	JV	Kyiv / Yorkton (Sask.)	agriculture, services
AKAN (Cdn. partner - CANUKR DEVELOPMENT CORPORATION)	JV	Lviv / Winnipeg	engineering, construction, technology transfer
ALIVA	JV	Tysmenytsia (Ivano-Frankivsk)	food, meat
AMPTech Corp. (Ukr. Partner "ORIANA" KALUSH PLANT)	JV	Calgary	magnesium
APTP PRIAZOVYE LTD. (Ukr-German; rep. of Cdn. Cos. FLEXI-COIL and MACDON INDUSTRIES LTD.)	JV	Boyevo (Donetsk)	agricultural machines, combines, tractors
ARTTUR (*)	JV	Kyiv	tourism, hotel reconstruction
ASHURST (*) (Cdn. partner - ASHURST TECHNOLOGY CORPORATION)	REP	Kyiv	materials and technologies
ATCO Ltd.		Calgary	nuclear weapons dismantling project
BERKUT (Cdn. partner - BAYER BUSINESS MACHINES LTD.)	JV	Lviv / Missisauga	information technologies
BILTOR Ltd. (Cdn. partner - LANDFORD LTD.)	JV	Kyiv	production of bricks
BURLAK LTD. (Cdn. partner - WILLIAM BURTONIAK)	JV	Lviv / Hamilton	trade, intermediary activity
CANADA-UKRAINE BUSINESS INITIATIVE (CUBI)	REP	Calgary	trade and various Canada-Ukraine services
CANADA-UKRAINE CHAMBER OF COMMERCE (CUCC)	REP	Kyiv/Toronto	trade and various Canada-Ukraine services
CANADA-UKRAINE FOUNDATION (affiliated with CANADA-UKRAINIAN CONGRESS)		Winnipeg	Canada-Ukraine programs
CANADA - ZAPORIZHIA (*) (Cdn. partner - CANADIAN-ZAPORIZHIA INTERNATIONAL IMPORT EXPORT CO. INC.) (see also JV: KICHKAS)	REP	Zaporizhia / Toronto	oil and gas equipment, import deliveries, trade
CANADIAN BANK NOTE CO. LTD.	REP	Kyiv	polygraph, security printing services: currencies, stocks, bonds, stamps, passports, photo-IDs, lotteries and related products
CANADIAN SHOP (*) (Cdn. partner - EUMAY TRADE INTERNATIONAL INC.)	JV	Kyiv / Winnipeg	consumer goods
CANADIAN AUTOMOTIVE SERVICE TECHNOLOGIES	REP	Kyiv / Etobicoke (Ont.)	automotive service centre, vehicle technical inspections and repair
CANUKR DEVELOPMENT CORPORATION (*)	JV	Winnipeg	engineering, construction, technology transfer
CARAT (Cdn. partner - JEWELLERY INDUSTRIAL)	JV	Gorlovka (Donetsk)	network of shops (wholesale & retail); non-ferrous rolling; electric-illuminates; freight transport; gas station; computer advertising; construction; sunflower oil production
CESO - CANADIAN EXECUTIVE SERVICE ORGANIZATION (*)	REP	Kyiv / Toronto	consulting by Canadian advisers
COMPLEX (Cdn. partner - IMPEX OVERSEAS LTD.)	JV	Chernivtsi / Toronto	trade, network of shops (consumer goods)
COTTAGE (Ukraine-USA-Canada)	JV	Kyiv, Kagarlyk / Toronto	construction, production of wall blocks, plant in Kagarlyk
COUNTRY SQUIRE INTERNATIONAL CORP. (*)	REP	Kyiv / Oakville	building residential, office and industrial buildings
CREATIVE TOOLING (Cdn. partner - CREATIVE TOOLING INC.)	JV	Kharkiv / Downsview (Ont.)	manufacturing of metal and wood treatment tools, marketing for machine building, finance, trade
DF INTERNATIONAL	JV	Sevastopol	export/import of chemical industry products, fertilizers
DINKOR (Canada-Holland-Ukraine)	JV	Kyiv	auto painting (pigments)
DOMAR-TRAVEL & TOUR TRANS LTD.	JV	Lviv	tourism
DONBASS - LIBERTY (Cdn. partner - FIRST LIBERTY GROUP)	JV	Khartsizsk (Donetsk Reg. / Concord (Ont))	production of pipes, construction nails, metallic furniture, accessories, porolon
DWT INTERNATIONAL (*)	JV	Kyiv	PC services, maintenance, repair
EMPIRE MAINTENANCE INDUSTRIES INC. - KYIV STATE UNIVERSITY	REP	Kyiv / Montreal	services (cleaning)
FRED LTD. (Cdn. pres. - FRANK LEV)	JV	Zaporizhia / Willowdale	production of wire, barbed wire, punches, press forms for castings of articles of plastic and non-ferrous metals
GALITSKY KOBZAR (Cdn. partner - Vasyl Sharan)	JV	Lviv / Richmond Hill	
GALYCH	JV	Bilshivtsi (Ivano-Frankivsk) / London	construction of beer and soft drink plants, retail and wholesale, dealers, transportation services, catering

JV - Joint Venture; COOP - Cooperative; DIST - Distributor; REP - Representative Office; * - Inactive

Source: Commercial Section, Canadian Embassy in Ukraine, and Trade Section, Ukrainian Embassy in Ottawa

COMPANY	TYPE	LOCATION	PRODUCTS/SERVICES
GENERATION UKRAINE (Canada-USA-Ukraine)	JV	Kyiv	parkview project, construction
GLOBAL WINGS LTD.	REP	Kyiv / Mississauga	consulting
GRANT MacEWAN COMMUNITY COLLEGE	REP	Kyiv / Edmonton	Canada-Ukraine programs
HITEX LTD.	JV	Lviv	construction (Canadian projects and technologies)
INART	JV	Kharkiv	agriculture research, clothes making, services, spare parts for motor cars, haberdashery production
INSTITUTE ROSELL INC.	REP	Kyiv/Montreal	bio-additives for medicines, food industry, cosmetics, etc.
INDEPENDENCE "NEZALEZHNIIST" (Cdn. partner - Y. R. KOVALTCHUK)	JV	Mariupii (Donetsk) / Surrey	consulting, information, intermediate and audit services
INTERMET	JV	Dnipropetrovsk	scientific production activity, commerce (general)
INTERPROJECT	JV	Kyiv	construction, reconstruction, repair, design
JOLYN CONSULTING LTD.	REP	Kyiv / Moinville (Alta.)	oil and gas consulting, horizontal drilling
K.F. UKRAINE (Cdn. partner - KLEEN-FLO TUMBLER INDUSTRIES)	DIST	Kyiv / Brampton (Ont.)	universal cleaning facilities, automotive chemical products
KASHTAN PETROLEUM (Cdn. partner - UK-RAN OIL; Ukr. partner - UKRNAFTA)	JV	Kyiv / Calgary	oil extraction, consulting, oil field in Lelyaky
KHMELNITSKY-TORONTO (Cdn. partner - North-Am Group (Divn. of NORTH AMERICAN ELECTROMECHANIC LTD.))	JV	Khmelnitsky / Toronto	production and packaging of vitamin soft drinks
KICKAS (Cdn. partner - International Export-import company CANADA-ZAPORIZHIA)	JV	Zaporizhia / Toronto	oil and gas equipment, import deliveries, trade
KIOLTO (Share holder - MINISTRY OF FORESTRY OF UKRAINE)	JV	Kyiv	production and trade of medicine raw materials - herbs, collection of herbs; general services for forestry workers
KLENOLYST	JV	Lviv	windows, doors, building materials, lumber, bulletproof doors, coffins, milled profiles
KORONEX	JV	Lviv	punches, ferrous metal cast, bakery, trade (general)
KOSAKO (Cdn. partner - KOBIKO)	JV	Odesa / Concord (Ont.)	trade, intermediate services
KOZLOVA ENTERPRISES INC.	REP	Dniprodzerzhinsk / Winnipeg	marketing, consulting, international tourism
KROK (Cdn. partner - P. GAMULA)	JV	Gorodenka (Ivano-Frankivsk) / Mississauga	consumer goods, wholesale and retail, construction, tourism
LAVA-UKRAINE (Cdn. partner - LAVA COMPUTER MFG. INC.)	JV	Chernivtsi / Rexdale (Ont.)	computers, hardware
LITOPYS UKRAINSKOYI POVSTANSKOYI ARMII (Cdn. partner - LITOPYS)	JV	Lviv / Toronto	publishing of history of Ukrainian Insurgent Army (UPA)
LVIV-TORONTO (Cdn. partner - LANDFORD LTD.)	JV	Lviv / Etobicoke	construction
M. MELNYK & SPILKA (Cdn. partner - M. MELNYK & ASSOCIATES CO. LTD.)	JV	Ivano-Frankivsk / Weston (Ont.)	potato chips, macaroni production, furniture, export of medicine
MARCAN INTERNATIONAL (Cdn. partner - 583716 ONTARIO LTD)	JV	Burshstin (Ivano-Frank.) / Hamilton (Ont.)	cultured marble products (baths, shelves, etc.)
MASHPROEKT (distributor of Cdn. Co. HAWKER SIDDELEY, OREDA DIVISION)	DIST	Nikolaiev	gas turbines, gas turbine engines
MDM-UKRAINE	JV	Kyiv	software, export/import, real estate
MDMT GROUP	JV	Dnipropetrovsk	software, trade
MEDIKUS	JV	Lviv	realization of medicines
MIRALEX (Cdn. partner - SELTA INTERNATIONAL TRADE INC.)	JV	Kyiv / Winnipeg	supermarket
MONTREAL-TRANSCONTINENTAL (repr. of Cdn. company in Ukraine)	REP	Mariupil	export-import, travel-service
MR. GOODBUY	JV	Kyiv / Toronto	light industry, consumer goods, clothes
MTK (marketing, technic, commerce) (Cdn. partner - GENERAL INVESTMENTS CORP.)	JV	Zhytomyr/North York (Ont.)	stomatology services, foreign economic activity, wholesale, extraction and processing of granite
MULTI M (Cdn. partner - KOROS INC.)	JV	Lviv	polygraphic services
NEWBRIDGE NETWORKS CORP. (Cdn. partner - NEWBRIDGE NETWORKS CORP.)	REP	Kyiv / Kanata (Ont.)	telecommunications services
NOMINAL LTD. (Cdn. partner - CASHCODE CO. INC.)	JV	Kyiv / Concord (Ont.)	trade equipment design and spare parts
NORTH AMERICA LTD.		Kyiv / Downsview (Ont.)	manufacturing, export-import, distribution
NORTHLAND POWER	JV/ REP	Kyiv	electricity, Darnytsia Thermal Power Plant project
NOVOLUXE LTD. (Cdn. partner - ROMAN V. MARKETING INC.)	JV	Vinnitsia / Thornhill	joint manufacturing of windows and doors (wood, plastic)

COMPANY	TYPE	LOCATION	PRODUCTS/SERVICES
ORIA WEST (Cdn. part - ORIA WEST CANADA INC.)	JV	Kostopil / Edmonton	construction, block plant in Kostopil
PARUS BEARBROOK (Cdn. partner - CANBEAR ENTERPRISES LTD.)	JV	Dnipropetrovsk / Ottawa	supermarket, cafeteria, sausage production and bread baking, car services, office and apartment leasing
PETRO-CANADA	REP	Dniprodzerzhinsk	lubricants (high quality motor oil / lubricant in plastic packages)
PHARMASCIENCE INC.	REP	Kyiv / Montreal	medicines and medical equipment
POHAR INTERNATIONAL	JV	Lviv	computer graphics, advertising, map-making, software writing
PRODAN (Cdn. partner - ATOMIC HEATING & COOLING LTD.)	JV	Lviv / Etobicoke (Ont.)	heating and cooling systems, transportation services
PRODEMTECH LTD.	JV	Lviv	construction, machines for construction blocks
PROFESSIONAL FREIGHT SYSTEMS UKRAINE LTD. (Cdn. partner - PROFESSIONAL CUSTOMS BROKERS CANADA LTD.)	JV	Kyiv / Edmonton	transport services, customs services
PROGRESSIVE TECHNOLOGIES (Cdn. partner - PROGRESSIVE TECHNOLOGIES)	JV	Kyiv / St. Laurent (Que.)	distributors of electronic components
PROZORIST' (CLARITY) (Official distributor of BAUSCH & LOMB)	JV	Kyiv / Toronto	contact lens, ophthalmology equipment, medicines
PYSANKA	JV	Lviv	transportation services, human assistance delivery
RAM (Cdn. partner - DSI INDUSTRIES INC.)	DIST	Kyiv / Concord (Ont.)	exhibition "Canadian Office Furniture", distributors
RAX (Cdn. partner - THE WINCHESTER GROUP INC.)	JV	Dniprodzerzhinsk / Markham (Ont.)	production of railway axles
RISTFOR (Cdn. partner - UCAN MACRO INC.)	JV	Luts'k / Montreal	shoe manufacturing, agriculture products processing, building materials
RFI RALLY FOOTWEAR INC.	REP	Kyiv / Ville-d'Anjou (Que.)	footwear distribution
ROMYR	REP	Kyiv/Toronto	services
ROSAN (Cdn. partner - MIST ECONOMIC DEVELOPMENT CORP.)	JV	Lviv / Toronto	transport, freight, intermediate services
SAKURA	JV	Lviv	general services
SEAGRAM (*) (Cdn. partner - SEAGRAM COMPANY LTD.)	JV	Kyiv / Montreal	drinks sale shop
SEMEX-UKRAINE (Cdn. partner - SEMEX CANADA LTD.; ONTARIO ASSOCIATION OF ANIMAL BREEDERS/ INTERNATIONAL LIVESTOCK MANAGEMENT SCHOOLS)	JV	Pereyaslav-Khmelnytsky / Guelph (Ont.)	cattle-breeding
SEM-UKRAINE (Cdn. partner - ROWNTREE FARMS LTD.)	JV	Cherkasy / Brampton (Ont.)	cattle-breeding
SENK D (Slovak-Ukr) (Official dealer of Cdn. Co. DSC)	JV	Energodar (Zaporizhia)	security systems, industry television, security technology
SHANNON GROUP LTD.	REP	Kyiv / Penticton (B.C.)	international project development and marketing, construction materials and building systems
SMITH LYONS	REP	Kyiv / Toronto	barristers and solicitors
STUDIO LEVA (Cdn. partner - KOROS INC.)	JV	Lviv	transportation services
SUMY FOODS (Cdn. partner - CHEEMO/HERITAGE FOODS LTD.)	JV	Sumy / Edmonton (Alta.)	varenikys
SVIT INTERNATIONAL (Cdn. partner - MYM COR DEVELOPMENT CORP.)	JV	Kyiv / Winnipeg	pizza, cheese plant in Fastiv district
TAVRIA-MAGNA (Cdn. partner - MAGNA INTERNATIONAL, INC.)	JV	Zaporizhia / Concord (Ont.)	production of tools, design, general equipment
TOKIDO	JV	Kyiv	construction
TOR-KYIV	JV	Kyiv	trade (general), metallurgy production export
TORONTO-KYIV (Cdn. partner - LANDFORD LTD.)	JV	Kyiv	construction, hotels construction
TRANSINVESTSERVICE (Cdn. partner - GLOBE TRADE INTERNATIONAL)	JV	Odesa / Richmond Hill (Ont.)	catering, confectionery, trade
TRIDENT REALTY (Cdn. partner - LANDFORD LTD.)	JV	Kyiv	bricks and blocks manufacturing, construction
TRIDENT TRUST (Cdn. partner - PROMBANK INVESTMENT)	JV	Chernivtsi / Mississauga	financial, consulting, investment and monetary services
UKR-CAN INTERNATIONAL SERVICE	JV	Lviv	trade, wooden articles production, hotel services
UKRAINE-BESSER-I&I (Cdn. partner - I & I WORLDWIDE INC.)	JV	Mykolayiv / Willowdale (Ont.)	wall building materials, construction services
UKRAINE-CANADA ONTARIO BEACH (Cdn. partner - JEWELLERY TRADE ASSISTANCE INC.)	JV	Zaporizhia / North York (Ont.)	trade: agriculture foods, equipment, motor cars, consumer goods
UKRAINE ENTERPRISE CORPORATION		Kyiv / Toronto	services, consulting, investments; listed on Alberta Stock Exchange
UKRAINIAN OIL AND GAS ACADEMY	REP	Lviv/Calgary	oil and gas consulting
VICTORIA (Cdn. partner - TVR MOULDING CUTTING MANUFACTURING LTD.)	JV	Odesa / Kelowna (B.C.)	assemblage of windows and doors made of wood, plastic or aluminum
WESTERN INDUSTRIAL GROUP INC.	REP	Donetsk	engineering, export/import of metal

JV - Joint Venture; COOP - Cooperative; DIST - Distributor; REP - Representative Office; * - Inactive
Source: Commercial Section, Canadian Embassy in Ukraine, and Trade Section, Ukrainian Embassy in Ottawa

9.3 List of Business Initiatives Announced in Kyiv, Ukraine Jan.28, 1999 - Prime Minister Chretien Visit.



Department of Foreign Affairs
and International Trade

Ministère des Affaires étrangères
et du Commerce international

January 28, 1999

(9:00 a.m. EST)

No. 15

BUSINESS DEALS IN KYIV STRENGTHEN CANADA-UKRAINE RELATIONS

International Trade Minister Sergio Marchi today witnessed the signing of 18 commercial agreements between Canadian and Ukrainian businesses worth \$163 million during a Canadian business development mission to Ukraine.

"The number and value of the agreements signed today send a strong message that Canada and Ukraine can do business," said Mr. Marchi. "It is only through a determined path of political and economic reform, however, that Ukraine can realize its full potential as an economic partner with Canada and other nations."

Today's signings included five contracts worth \$10 million, six memorandums of understanding valued at \$21 million, and seven letters of intent worth \$132 million. These signings came in a number of sectors, including agriculture, energy, construction and manufacturing. Nearly 150 Canadian businesses participated in the two-day business mission to Ukraine.

The business development missions to Ukraine and to Poland from January 25 to 28 led to a total of 56 signings worth \$295 million to Canadian businesses. The missions coincided with the first official visit by Prime Minister Chrétien to both countries.

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Backgrounders on the business deals and initiatives signed are attached.

For further information, media representatives may contact:

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Backgrounder

LIST OF NEW BUSINESS INITIATIVES ANNOUNCED TODAY IN KYIV, UKRAINE

4 Square Productions Ltd. of Regina, Saskatchewan, has signed a contract with Novvy Kanal of Kyiv to co-produce two TV documentaries, *The Catacomb Church of Markova*, which deals with the tragedy and triumph of the Ukrainian Catholic Church in Canada, Ukraine and the world, and *The Fatal Embrace: Ukrainians and Jews*, which explores the history of these two peoples. The total project value is \$500 000 and the Canadian content value is \$300 000.

Aurora Pacific Consulting and Development Corporation of Vancouver, British Columbia, and **Specialized Quarry of Ivaniv** have signed a contract to form a joint venture to establish Europe's largest abrasive garnet producing plant. The garnets will be used in Ukraine and exported to Europe for sand paper, sand blasting, high-pressure water jet cutting, and water filtration. The total project value is \$6 million with Canadian content value of \$3.2 million.

Central Canadian Structures of Winnipeg, Manitoba, has signed a memorandum of understanding with **Darnitsia Pharmaceutical Company of Kyiv** to upgrade and develop Darnitsia's production facilities. The objective is to improve the company's operating efficiency and increase its market share in the Ukrainian pharmaceutical industry. The first phase of development is expected to be worth approximately \$7.5 million with Canadian content of \$5.3 million.

Central Canadian Structures has also signed an agreement with **Olvia Corporation of Dnepropetrovsk, Ukraine**, to supply three energy-efficient houses that utilize the latest Canadian building technology. The project is valued at \$1 million with a Canadian content value of \$500 000.

CMS Company Limited of Vancouver, British Columbia, has signed a letter of intent to form a partnership with **Almeta Co. Ltd. of Odessa** to export and distribute Canadian-made building materials such as doors, windows and roofing materials, among others. The partnership will focus on establishing one-stop distribution centres in Odessa, Kyiv and other centres to target the \$3.7 billion new construction and renovation market in Ukraine. Projected sales for the first year are estimated at \$1 million in Canadian content.

Consumers Packaging of Toronto, Ontario, has signed a long-term contract with the **MDMT Group of Kyiv** to form a joint venture to provide high-quality bottles for **Persha Hildia**, Ukraine's most popular vodka. The project is valued at \$5 million over three years, all of which is Canadian content.

Gemite Products Inc. of Mississauga, Ontario, has signed a memorandum of understanding to form a new joint venture company that will manufacture and market Gemite's advanced construction and building materials and technologies in Ukraine. The joint venture will be operational in Kyiv later this year and in other regions of Ukraine in 2000. The project is valued at \$2 million over the next three years with over \$1.5 million in Canadian content.

Geomat International of Montreal, Quebec, and the **Main Administration for Geodesy, Cartography and Cadastre at the Cabinet of Ministers of Ukraine** have exchanged letters of intent for the development of a new project for strengthening the Ukrainian information infrastructure for cartography and cadastre. The project is valued at \$7 million with \$4.2 million in Canadian content.

McCain Foods Ltd. of Florenceville, New Brunswick, a diversified frozen food company that produces a wide range of products from vegetables to juices to meat-based entrées, has undertaken a major feasibility study in Ukraine to identify possible investment opportunities in one or more of

these fields of activities. One such opportunity is a project in Chernihiv oblast. Today, McCain Foods has signed a preliminary protocol with Interagrosistema to complete that company's project to build a plant for the production of French fries.

Northland Power Inc. of Toronto, Ontario, and its Ukrainian partners, the State Property Fund and Darnitsia Workers Collective, have agreed to sign with the European Bank for Reconstruction and Development the financial term sheet for a \$240 million project to rehabilitate the Darnitsia power plant. The two-year reconstruction project will include the installation of a modern 140 MW combustion turbine and heat-recovery steam generator to repower the existing plant, reducing pollution emissions, increasing efficiency and doubling peak-mode electricity output. The Canadian content value of this project is \$35 million.

Pharmascience Inc. of Montreal, Quebec, has granted a licence to its subsidiary in Ukraine, Pharmascience-Ukraine. The licence is for the production of the anti-tuberculosis drug ISONIAZID syrup, which is very much needed for the treatment of children's tuberculosis. The Ukrainian company will implement a technology transfer and will organize production of the drug at one of the Ukrainian pharmaceutical plants in 1999-2000. The value of the agreement is \$474 000 and the Canadian content value is \$453 000.

The Province of New Brunswick and the Chernihiv oblast have signed a memorandum of understanding regarding transfer of potato technology. The memorandum outlines an agreement to co-operate in several technology transfer areas such as variety evaluation, production, storage and agricultural extension services.

Ronsco Inc. of Montreal, Quebec, has signed an agreement to enter into a joint venture with Dneprovsky Iron and Steel Works to upgrade their plant facility in Dnieprodzerzhinsk. Ronsco is the largest supplier of freight car and locomotive components in Canada. The deal is valued at about \$1.1 million with Canadian content of \$525 000.

Saskatchewan Trade and Export Partnership Inc. (STEP) of Regina, Saskatchewan, has signed a memorandum of understanding with the Ukrainian Ministry of Agronomics complex to pursue significant improvements in Ukraine's beef and forage production and practices. The project is valued at \$6 million with \$3.2 million in Canadian content over four years.

SNC-Lavalin of Montreal, Quebec, and Teron International Building Technologies and Katrides American Trading of Ottawa, Ontario, have signed a memorandum of understanding and protocol of intent with the L'viv International Airport Authority to implement the modernization and reconstruction of L'viv's airport. The project is valued at \$91.2 million with \$30.4 million of Canadian content.

SNC-Lavalin of Montreal, Quebec, and Teron International Building Technologies and Katrides American Trading of Ottawa, Ontario, have signed a protocol of intent with the City of L'viv to implement the modernization and reconstruction of the L'viv City Centre. The project is valued at \$228 million with \$60 million of Canadian content.

SNC-Lavalin of Montreal, Quebec, and Teron International Building Technologies of Ottawa, Ontario, jointly with Katrides American Trading of Ottawa, are signing a memorandum of understanding with Velta Insurance and Katrides American Trading of Kyiv to develop two deluxe apartment buildings in the downtown area. The buildings have historic facades that will be restored.

The project value is estimated at \$22 million with \$6 million of Canadian content.

*All three SNC-Lavalin deals listed above are to be budgeted and are subject to the development in financing of the project.

The Ukraine Enterprise Corporation of Toronto, Ontario, has signed a memorandum of understanding concerning the expansion of their coal recovery business. The first section relates to increasing their investment in their existing Kalininskaya plant to \$5.3 million to finance capital improvements. This plant commenced production in April 1998 and has 80 employees. The memorandum of understanding also outlines plans to develop and finance as many as 10 further coal recovery projects with a total value of up to \$45 million. The Ukraine Enterprise Corporation is a Canadian company formed to invest in companies in Ukraine.

Announceables

Canada-Ukraine Business Initiative (CUBI) Chamber announces that with the support of the Governments of Ukraine and Canada, planning is proceeding on CUBI II, a trade and investment program to be held in Ukraine. Subject to finalizing details on timing, financing and venues, the program will work on attracting Canadian companies to Ukraine and matching them with Ukrainian companies, especially in the growing entrepreneurial sectors. Focus will be on agriculture, construction and energy, with other sectors added depending on bilateral interest.

Northern Telecom of Mississauga, Ontario, has a major project in Ukraine to develop a multimedia corporate network for the National Bank of Ukraine (NBU). The Nortel network connects all regional departments of the NBU and satisfies all requirements for voice and data communications between all NBU sites. The network provides secure and high-speed communications and enables NBU to make significant savings on domestic and long-distance telephone traffic. The existing NBU network is the first step in the creation of an advanced multimedia telecommunications network for the Ukrainian banking and finance community.

Solanum PEI of Charlottetown, Prince Edward Island, and **Monsanto Corporation (Ukraine)** have announced a new potato technology partnership for Eastern Europe. The partnership combines the leading-edge biotechnology capacity of Monsanto with the potato production systems technology of Prince Edward Island, the second largest seed potato exporter in the world. The partnership is valued at more than \$5 million, which will be invested over the next two years.

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