

# Doing Business in Ukraine

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by Eugeny Shmakov and Sandra Loeb, Ph.D.

**Fulbright Scholar to Ukraine**

*Eugeny Shmakov is a strategic planner at DSS in Zaporozhia, Ukraine. Dr. Sandra Loeb holds a PhD. in marketing and has worked as a professor of business in the U.S., Poland, Vietnam, and most recently as a Fulbright Scholar to Ukraine.*

### **General Information about Ukraine**

Ukraine is increasingly presenting an attractive area for foreign investment. With a population over 50 million, and a highly skilled work force it is located between the developed markets of the European Union and the markets of the Middle East and Central Asia.

Ukraine gained independence in 1991, but unfortunately did not implement the economical and political reforms necessary to achieve the economic growth found in other Eastern European countries such as Poland and Hungary. It was almost 9 years before efforts were begun to overcome difficulties holding the country back. The process of reforms was accelerated in early 2000 after which the economy began to grow, with real GNP growing by an average of 5.8% per annum.

The economy has been growing for the past two years, and is expected to continue to grow. Both industrial output and consumer spending are experiencing double-digit growth, and are expected to continue to do so.

Adding to Ukraine's business attractiveness is a well-developed scientific and industrial base. The national economy includes heavy machine building, ferrous and non-ferrous metallurgy, shipbuilding, automotive industry (buses, cars and trucks), manufacturing of tractors and other agriculture machinery, diesel locomotive manufacturing, manufacturing of machine-tools, turbines

and aircraft engines, production of power plants, oil extraction and chemical equipment and so on. Ukraine is also a significant generator of energy.

Several fields of the Ukrainian economy exhibit high levels of technological development. The country is producing carrier rockets, satellites and space research equipment. Ukraine is a major producer of military equipment, including tanks, military transport aircrafts, SAM complexes and optical equipment. In addition «Antonov» aircraft, lighter-board ships, walking excavators, precision machinery, and electric welding equipment are produced using state-of-art technologies and complying with top world standards.

#### The largest industrial centers in Ukraine

Kyiv	2.635 million
Kharkiv	1.575 million
Dnipropetrovsk	1.161 million
Donetsk	1.101 million
Odesa	1.059 million
Zaporizhya	887 thousand
Lviv	806 thousand
Mykolayiv	519 thousand
Luhansk	493 thousand

There are 18 marine ports in Ukraine, including Odessa (Black Sea), Illichevsk (Black Sea), Berdyansk (Azov Sea) and Mariupol (Azov Sea). Transportation by sea is the most inexpensive and reliable way of exporting goods to Ukraine from all over the world. Also there is a very expanded railway network in Ukraine. Shipments of goods to local customers, customers in Russia and other NIS countries are generally carried out by railway. Shipments to EU and other countries are carried out by sea or motor transport.

## **US companies in Ukraine**

US companies are major direct investors in Ukraine. They have strong positions in such sectors of the Ukrainian economy as IT and Telecommunications, packing, processing, food industry, distribution, textile cutting and sewing, woodworking, furniture and building materials, automotive parts, pharmaceuticals, medical equipment and aerospace. Enormous opportunities exist in the field of electrical power systems, energy efficiency and oil & gas equipment.

Such US companies as Coca-Cola, Kraft – Jacobs – Suchard, Mars, PepsiCo, Procter & Gamble, and SC Johnson are excellent examples of successful business in Ukraine. These companies have developed strong distribution and service networks in Ukraine as far as some of them set up manufacturing facilities here.

## **The Rules and Regulations**

The Rules and Regulations for doing business are best summarized in the Law (Zakon) of Ukraine «About International Economic Activity», 959-12, 16/04/1991, [www.rada.gov.ua](http://www.rada.gov.ua).

State bodies, which address questions of foreign trade activities in Ukraine are listed below.

Verchovna Rada, [www.rada.gov.ua](http://www.rada.gov.ua)  
Local Councils of the Deputies of Ukraine  
The Cabinet of Ministers of Ukraine, [www.kmu.gov.ua](http://www.kmu.gov.ua)  
Territorial divisions of state bodies  
National Bank of Ukraine, [www.bank.gov.ua](http://www.bank.gov.ua)  
The Ministry of Economy of Ukraine  
State Customs Service of Ukraine, [www.customs.gov.ua](http://www.customs.gov.ua)  
Antimonopoly Committee of Ukraine, [www.kmtv.kiev.ua](http://www.kmtv.kiev.ua)  
Antidumping Commission on International trade

Customs regulation of foreign trade activities in Ukraine is carried out in accordance with the Uniform customs tariff of Ukraine.

#### Types of export (import) licenses and quotes in Ukraine

General	Global
Single (individual)	Group
Open (individual)	Individual
Antidumping (individual)	Antidumping
Compensatory (individual)	Compensatory
Special (individual)	Special

Only one particular kind of licenses or quotes is used for one particular kind of product.

#### **Preparation for the Trip**

One of the first things you might note before engaging in business activity in Ukraine is that the country should be referred to as 'Ukraine', not 'The Ukraine'. So, you are doing business in Ukraine, not *the* Ukraine. That said, you must begin your preparations. First, who will your partner be and how are you going to meet? Your Ukrainian counterpart will probably appreciate a face-to-face meeting over meeting via electronic means. This will probably be accomplished more easily if you go to Ukraine, as visas to the U.S. are extremely difficult for Ukrainians to obtain.

If you are visiting Kyiv, expect to find the type services found in other European capitals. Major cities outside of Kyiv might be lacking in many services, so please check with your contacts about matters such as availability of hotels, water, power, ATMs (although, these are becoming somewhat ubiquitous), and so on.

If you plan to visit a rural area you should recognize there exist difficulties connected with insufficient health care,

poor communication (to minimize this problem you might buy a cell phone from local providers such as Kyivstar, UMC or DCC or check on support of your own in Ukraine) and lack of hotels, and in those hotels which exist, often lower levels of comfort than is found in the U.S. You should probably arrange to have a car and driver take you to the places you need to visit. Expect trips to take longer than similar road trips in the U.S. due to a lack of a well-developed road system. Also, make sure you are accompanied by someone who speaks Russian and English as it will be more difficult to find someone who speaks English in the countryside.

### **Documents and Money**

Before entering Ukraine, you should have your passport and entrance visa, which can be obtained from the Ukrainian Embassy in the USA. Instructions for this can be found on their web site at [www.ukremb.com](http://www.ukremb.com). Documentation cannot be obtained at the border. If you intend to continue your business trip in another country that requires a visa, such as Russia, you will probably want to do so before leaving home, as it is not easily accomplished in Ukraine, and it may cost you more money.

On entry you must declare the value of currency and other valuables, such as precious metals and stones and any business materials you are bringing with you. While credit cards are accepted at increasingly more locations, travellers should recognize that many (most places outside Kyiv, although this too is changing) places

still do not accept them. It is possible though to use credit and bank cards at ATMs to obtain cash. The exchange rate may be better than local bank rates at the ATMs. Also you can change your dollars into local currency – hryvnya - easily at local moneychangers. It is also possible, although expensive, to have money wired from the USA via Western Union.

Recognize that some sort of official identification should be carried at all times. Officially, a copy of your passport should be sufficient, however, word of this seems not to have reached all locales and you might want to consider having your passport with you at all times in Ukraine, especially when travelling outside of Kiev.

### **Clothing**

Conservative suits are the rule for business people in Ukraine now. Casual Fridays and the like are not common. Winters in Ukraine are not so severe as in Russia, but you should be ready for different surprises: rain in winter and snow in spring or early in autumn. Also, if you expect to walk much, bring comfortable shoes; Ukrainians think nothing of a mile walk. In winter, sidewalks are not kept as clean as in the U.S., so some footwear that provides traction will be necessary.

Wash and wear might be wise for clothing other than suits. If staying in some of the top hotels in Kiev, reliable dry cleaning is probably available, but it is not widely available elsewhere. Clothes sent out to be

washed will likely be hand washed, so be forewarned. While you can find just about any clothing item you want in Ukraine, you probably won't be able to find that one item you are in search of.

### **Transport**

So, you've come to Ukraine. The first place you'll probably see is the airport. Most arrive at the National airport «Borispil» in Kyiv, although it is also possible to enter through other cities such as Lviv, Odessa, and Dnipropetrovsk, as well as via train. Make sure your visa and other necessary documentation is in order, or your first stop might be your last. Visas cannot be obtained at the airport or other entry points.

If Kyiv is your final destination, the city is about a 45-minute ride away. If not, you can fly on to many locations from one of two airports in Kyiv. Some flights depart from Borispil, while most domestic flights leave from Zhulhany airport, located in between Borispil and Kyiv.

An often more convenient alternative to flying is rail. Most cities in Ukraine are served from the Central Kyiv Railway Station by reliable overnight trains. Reservations can be made through a travel agent or your Ukrainian contact. Unless you speak Russian though, rail can be difficult for the lone traveller. Your Ukrainian partner is the key to success in the Ukrainian market and he or she should be more than happy to help you

significantly in such simple situations as buying tickets or hiring a taxi.

### **Gifts**

To bring some gifts from the USA will be appreciated. If your company has logo gifts, these would be good. If you are invited to someone's home, you can bring flower bouquets or gifts from the USA, but avoid gifts that are romantic or extremely expensive (red roses, jewellery and the like). Remember, as in many parts of Europe, flowers should be given in odd numbers and avoid chrysanthemums, as they are often used for funerals. Other gift ideas would include liquor, candy, and cigarettes from the U.S., books or pictures of your home town, the U.S. and/or company, as well as logo apparel.

### **Greetings**

Ukrainian names can be hard to pronounce for those not accustomed to the sounds of the language, and most Ukrainians you will meet will recognize this, so if you cannot spell and/or say it the first time (it is almost a given that you will do so incorrectly) ask again, do not hesitate. People will appreciate the effort. On the bright side, there is not a lot of variety in names and you will need to learn only a few.

Both women and men are referred to by their given name and then a form of their father's first name. The father's name ends in «ivna», «ovna», «na» for females and «ich» for men. Hence, if your father's name was «Robert», a male would be Alexander Robertovich,

and a female would be Sandra Robertovna, for example as accustomed in Ukraine. This custom is slowly declining, but is currently used in many parts of the country. Titles are almost not used during the conversation.

Ukrainian males like to shake hands and do so upon every meeting, no matter how casual. They are not likely to shake a female's hand though and a man will usually wait for a woman to extend her hand first before shaking it. It is not common for a man to kiss a woman's hand upon introduction, except in some parts of the West.

It is a common thing for your partner to ask you the date of your birthday. It is the rule of good form to congratulate your partner on his/her birthday; in such a way you demonstrate your good will to him/her and indicate your business is not only about making money, but also about human relations.

Outside of Kyiv (and sometimes in) it is common to be toasted with vodka or cognac at any time of the day – so be prepared. Should you not wish to imbibe, one way out of such drinking is to claim a medical problem such as a bad liver.

### **Communicating with your Ukrainian counterparts**

English and German are commonly spoken by many of the younger Ukrainian business specialists. Do not be surprised if your translator, or possible English or German speaking partner, will be 20-30 years old. Do not pay attention to this. The Ukrainian education

system is strong and you should be ready to meet with such a young, but experienced person, as your possible partner. It is this younger generation that is taking the lead in developing business in Ukraine, much as in the high-tech industries in the U.S. It might be wise though, to arrange for a translator, or ask your partner to do so for you.

### **Business meals and entertainment**

During your travel to the Ukraine you will likely be invited to a banquet. There is still a lack of good restaurants in Ukraine outside of Kyiv. Rely on your contacts for recommendations. You can enjoy the cooking but be careful with alcohols such as Russian Vodka or Georgian Cognac. Your hosts will be accustomed to drinking like a fraternity member, but you probably aren't. While you probably won't encounter a lot of variety in food in Ukraine, neither will you encounter too many objectionable foods.

### **Negotiations**

Corruption is considered a national tragedy. It does not matter who you are, it will probably touch you one way or another. Government officials receive very low salaries (~\$50 per month), leading many to corrupt practices, which are viewed by many as if not normal, at least necessary. Because of corruption, you should constantly check whether officials are telling the truth, particularly if you need an official approval for an investment project. Getting the right local partner is

extremely important to keep the worst aspects of this problem away from you.

In most cases people like face-to-face interaction instead of telephone conversations. That is one reason why e-commerce, for example, is not more developed in Ukraine. So try to meet with your possible partner. Telephone conversations can be ineffective and too impersonal.

The way of carrying out negotiations is almost the same as in the US, but there might be different approaches to solving the same problems. People trust figures, but not words. So before starting the deal, it will be necessary to prepare a first draft of a business plan for your Ukrainian partner, so he/she could look through it and evaluate the business perspectives. After that your Ukrainian partner will prepare a second draft of business plan for you. At this stage it will be necessary for both counterparts to discuss the business plan. Carrying out negotiations is extremely necessary. Preparation of a good business depends on whether you have good and reliable local partner. So having a reliable local partner is paramount.

After carrying out the first negotiations and discussion of business plan it is time to start a real business. But you should not expect immediate steps from your partner. It does not depend on him. Usually it takes from 6 months or even a year or even more to start a business. Getting the necessary papers and

licenses very often slows the process of starting a business. So it is imperative to have a local partner to help you maintain relationship with state officials. Ukraine is a country where patience is necessary. Most people in Ukraine do not place the same importance on speed as you, and don't even understand why you would want something done quickly, so extreme patience is necessary.

### **Conclusion**

Ukraine is a good potential market for US corporations. There is still a lack of really good products and services that are available in the USA and there are some difficulties in doing business there, but nevertheless Ukrainian market is a growing market in a world economy that is slowing down. Think strategically and you will succeed.

### **Links**

1. President of Ukraine, [www.kuchma.gov.ua](http://www.kuchma.gov.ua)
2. Verchovna Rada of Ukraine (Parliament), [www.rada.gov.ua](http://www.rada.gov.ua)
3. The Cabinet of Ministers of Ukraine, [www.kmu.gov.ua](http://www.kmu.gov.ua)
4. State Department of Food, [www.fooddept.gov.ua](http://www.fooddept.gov.ua)
5. National Bank of Ukraine, [www.bank.gov.ua](http://www.bank.gov.ua)
6. State Customs Service of Ukraine, [www.customs.gov.ua](http://www.customs.gov.ua)
7. Antimonopoly Committee of Ukraine, [www.kmtv.kiev.ua](http://www.kmtv.kiev.ua)
8. The U.S. Embassy in Ukraine, [www.usemb.kiev.ua](http://www.usemb.kiev.ua)
9. Public Affairs Section (PAS), [www.usis.kiev.ua](http://www.usis.kiev.ua)
10. American Chamber of Commerce in Ukraine, [www.amcham.kiev.ua](http://www.amcham.kiev.ua)



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