2000 Country Reports on Economic Policy and Trade Practices
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UKRAINE

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP 1/	40.76	30.78	13.14
Real GDP Growth (pct) 2/	-1.7	-0.4	4.0
GDP by Sector:			
Agriculture	4.48	3.33	0.64
Manufacturing	11.80	8.64	4.07
Services	16.7	12.68	5.78
Government	N/A	N/A	N/A
Per Capita GDP (US$)	850	619	N/A
Labor Force (millions)	22.3	22.7	N/A
Unemployment Rate (pct)	3.2	4.3	4.3
Money and Prices (annual percentage growth): 5/			
Money Supply Growth (M2)	24	41	38
Consumer Price Inflation	29.0	19.2	30
Exchange Rate (Hryvnia/US$ annual average)	2.7	5.22	5.5
Official	2.50	4.13	5.43
Balance of Payments and Trade: 5/			
Total Exports, FOB 3/	16.4	16.2	8.0
Exports to U.S. (US$ millions)	634	538	374.8
Total Imports, CIF 3/	17	15.2	7.34
Imports from U.S. (US$ millions)	887	568	187.8
Trade Balance 3/	-2,584	-482	N/A
Balance with U.S. (US$ millions)	253	-30	187
External Public Debt/GDP (pct)	29.0	44	34.4
Fiscal Surplus (Deficit)/GDP (pct)	2.5	-1.5	-2.0
Current Account Deficit/GDP (pct)	-2.8	2.7	4.0-5.0
Debt Service Payments/GDP (pct)	N/A	4.0	3.5
Gold and Foreign Exchange Reserves	1.2	1.09	1.00
Aid from U.S. (US$ millions) 4/	225	195	90
Aid from All Other Sources	N/A	N/A	N/A

1/ 2000 GDP figures are based on available monthly data for the first six months of 2000 only; they are not annual projections. Year end 2000 forecasts are not available. Source: International Center for Political Studies in Kiev and the Government of Ukraine.

2/ Percentage changes calculated in local currency, adjusted for inflation.
3/ Merchandise trade.
4/ Figures are actual FY expenditures. Cumulative budgeted assistance (credits and grants) for FY 92-99 totals approximately $2.88 billion.
5/ 2000 figures are based on available monthly data through August 2000.

1. General Policy Framework

Since achieving independence in August 1991, Ukraine has generally followed a course of democratic development and slow economic reform . Overall, its economic reform path has been marked by a series of advances followed by reversals. A tremendous amount of work still lies ahead in the area of economic development and in the creation of an economic environment governed by market forces that is conducive to foreign investment. Ukraine's transition to a market economy has been complicated by that fact that it inherited a large defense sector and energy-intensive heavy industry from the former Soviet Union. The country's principal resources and economic strengths include rich agricultural land, significant coal and more modest gas and oil reserves, a strong scientific establishment, and an educated, skilled workforce.

Despite its economic problems, Ukraine remains an emerging market at the crossroads of Eastern Europe, Russia, Central Asia, and the Middle East, and holds great potential as a new market for U.S. trade and investment. Foreign direct investment (FDI), at $55 per capita and $3 billion overall, is the lowest in the region. U.S. investment, at $570 million, is the largest single source of FDI in Ukraine. Private investment (including U.S. investment) is greatly hampered by rampant corruption, over-regulation, lack of transparency, high business taxes, and inconsistent application of local law.

The government has generally been successful in efforts to achieve macroeconomic stability but Ukraine still has much progress to make in key structural areas, including pushing ahead with strategic privatization, widening the tax base, and improving contract enforcement. Ukraine was initially hard hit by the August 1998 Russian financial crisis, but managed to weather the effects of this crisis relatively well in 1999. Economic growth in the formal sector shows signs of a modest recovery in 2000 after nearly a decade of decline. The overall GDP growth for the year 2000 is estimated at approximately four percent and inflation is expected to be 25 to 28 percent. The period January-August 2000 saw Ukrainian foreign currency reserves maintain a steady level at approximately $1.1 billion.

September 1998 saw the first disbursements to Ukraine from the International Monetary Fund (IMF) Extended Fund Facility (EFF). The three-year, $2.6 billion EFF program stipulates that the Ukrainian government must take steps towards tax reform, a lower budget deficit, deregulation, and other measures to encourage private investment. Several times during 1999 Ukraine fell out of compliance with IMF conditionalities, causing the IMF temporarily to hold up EFF disbursements. In most instances, Ukraine took steps to bring itself back in line with EFF requirements, and disbursements were resumed. In September 1999, however, the IMF halted programs due to slippages in project implementation.

As of late 2000, IMF programs have not yet been reinstated. In November 2000 Ukraine and the IMF reached an agreement on a core set of policies for restarting the EFF. On December 7 Ukraine passed a 2001 budget that met IMF guidelines. On that same day, the Rada (parliament) passed a law on banks and banking activities that was also a key prior condition for an IMF board meeting. With these prior actions complete, Prime Minister Yushchenko and National Bank Chairman Stelmakh signed a previously agreed letter of intent to the IMF on December 7. The IMF has scheduled a board meeting to approve Ukraine's program and decide on the resumption of the EFF on December 19.

Following the Asian and Russian financial crises, Ukraine's access to private foreign financing greatly diminished. Deterioration of the important Russian market for Ukrainian goods caused a significant drop in exports in 1999. Exports have recovered significantly in 2000; in the first six months they were up 20 percent. There is currently a petition before the U.S. Trade Representative to deprive Ukraine of its privileges under the Generalized System of Preferences (GSP), based upon Ukraine's poor record on the protection of Intellectual Property Rights (IPR). Loss of Ukraine's GSP status with the United States (Ukraine's second largest export market) would hamper the economy, especially given that exports outside the newly independent states of the former Soviet Union have increased this year, suggesting increasing diversification in Ukraine's trade structure..

The situation in the private banking sector, rife with non-performing loans and lacking good lending opportunities, remains precarious. Despite some progress in deregulation, Ukraine still awaits a much-needed surge in new investment. Domestic and foreign investors remain discouraged by a confusing and burdensome array of tax, customs and certification requirements, corruption, and the absence of an effective system of commercial law.

The exchange rate relative to the dollar remained steady within a narrow band in 1996 and 1997, but between August 1 and September 30, 1998, the hryvnia depreciated approximately 40 percent against the dollar before stabilizing. The hryvnia continued to drop in 1999, falling approximately another 50 percent against the dollar during the course of the year. In February 2000 Ukraine discontinued the currency band policy and decided to allow the hryvnia to float. Despite various pressures (e.g., low reserves and high debt service), the exchange rate has remained fairly stable this year at UAH/$5.40, owing to strong FDI and a market improvement in the current account.

Ukraine's budget deficit has largely been the result of excessive spending on a variety of programs as well as subsidies to both noncompetitive industries and private consumers. Inadequate revenue collection has also hampered the government's income. Deficit financing was achieved through a combination of issuance of T-Bills to domestic and foreign borrowers, borrowing from the National Bank of Ukraine (NBU), assistance from international financial institutions (IFIs), and accumulation of wage and pension arrears. With the onset of the Russian financial crisis in August 1998, however, the market for government debt largely dried up, and the government increasingly relied upon credits from international financial institutions (IFIs), especially the IMF and World Bank. Despite ongoing problems in establishing a sustainable budget process, the Ukrainian government managed to improve the quality of the budget somewhat in 2000 by eliminating noncash offsets for all obligations incurred after December 31, 1999 and by moving closer to a unified Treasury system of accounts to track expenditures more closely and keep the overall deficit contained. However, the better-than-expected fiscal position has been achieved in part by nonpayment of interest on NBU holdings of government T-bills. Such nonpayment has been a point of contention between the NBU and the Ukrainian government this year. In September 2000 the government agreed to restructure its $1.9 billion debt to the NBU.

2. Exchange Rate Policy

To maintain exchange rate stability in 2000, Ukraine has taken several measures. Although the NBU lifted most currency transaction restrictions in March-June 1999 (including a ban on advance payment on import contracts) and opened an interbank market for foreign exchange, enterprises are still obliged to sell 50 percent of their hard currency earnings. This stipulation was slated for removal in the spring of 2000, but remains in place. It is unclear when the NBU will issue a resolution removing the requirement, which is currently being used as a tool to maintain exchange rate stability.

Exchange rate related restrictions have produced hardships for U.S. firms doing business with Ukraine since it is sometimes hard to convert all profits. U.S. exporters are reluctant to ship goods without prior payment, while U.S. businesses operating in Ukraine (many of which are highly dependent on imports) have had difficulties in obtaining materials necessary for their operations. Overall, Ukraine needs to introduce greater flexibility to the exchange rate, as this is key for underlying macroeconomic adjustment.

3. Structural Policies

Ukraine's burdensome and nontransparent tax structure remains a major hindrance to foreign investment as well as to domestic business development. Personal income and social security taxes remain high. Tax filing and collection procedures do not correspond to practices in Western countries. Import duties and excise taxes are often changed with little advance notice, giving foreign investors little time to adjust to new requirements. A new tax code is currently being considered by the Rada. According to the proposed new code, a number of taxes and duties will be reduced and others, such as an innovation fund tax, some insurance fund taxes and some local taxes would be eliminated. The VAT would be decreased by 1 percent, from 20 to 19 percent. The tax code would substantively reduce taxes without increasing the tax base by a commensurate amount, raising fiscal sustainability issues going forward. The Ukrainian government has agreed to slow the implementation of the tax code, per IMF recommendations. Nonetheless, it is imperative that the government take measures to widen the tax base to improve budget revenues and minimize the potential negative impact tax cuts alone could have on the overall fiscal outlook. .

The regulatory environment is chaotic, and Ukraine's product certification system represents a serious obstacle to trade, investment, and the development of domestic business. The regulatory environment is closely linked to problems of corruption, which has worsened in recent years, according to Transparency International. Their statistics rank Ukraine as the world's third most corrupt nation in 2000. Procedures for obtaining various licenses remain complex, unpredictable and subject to graft. This significantly raises the cost of doing business in Ukraine and encourages the maintenance of the shadow economy. In June 2000 the Rada passed a law on licensing which identifies 70 types of business activity that require a license and establishes a procedure for obtaining a license. This would represent a vast improvement over the nearly 700 licensing bodies that currently exist. The law is intended to coordinate and simplify previously conflicting rules on licensing. In addition, the Rada is currently considering a draft law, which, if passed, will considerably reduce the list of goods and services subjected to compulsory certification. Compulsory certification will be reserved for those goods thought to be dangerous to people and the environment.

4. Debt Management Policies

As of September 2000 Ukraine's foreign debt stands at $10.58 billion, or roughly 40 percent of GDP. This represents a drop from the 1999 external debt of $12.4 billion, owing to a special agreement between Ukraine and Russia on energy-related debts. External debt service as a percent of GDP was 4 percent in 1999 and estimated to be about 3.5 percent in 2000. The largest individual creditors are the IMF, World Bank and other IFIs. In September 2000 general parameters for future state-debt policies (specifically 2001-2004) were issued to help curb the growing foreign debt. The parameters call for a more structured money borrowing policy, including the use of different lending sources from year to year. A new law, which would consolidate government debt, passed the first reading in parliament and is expected to advance to a second reading.   Ukraine managed to restructure its private external debt in a comprehensive fashion in April 2000 to ease repayment crunches owing to the short-term nature of Ukraine's debts. Once Ukraine is back on track with the IMF, it will be able to pursue a formal Paris Club restructuring, which would help smooth debt payments.

5. Aid

Ukraine is one of the leading recipients of U.S. assistance. Nonetheless, aid assistance has decreased over the last three years. In 2000 under the Foreign Assistance Act the United States approved $89.99 million (down from $195 million in 1999) for Ukraine. This assistance was focused on economic reform and privatization, business development, energy and environment (including nuclear safety/Chornobyl), democracy and local government, legal reform, and health and social development. In addition, U.S. funding goes for exchange programs, Peace Corps, transport of humanitarian supplies, and the Nunn-Lugar Cooperative Threat Reduction Program.

U.S. assistance in the privatization of regional energy distribution companies (oblenergos) has helped Ukraine structure the sale of these assets in a way that minimized the participation of non-strategic, undesirable investors. The privatization of these oblenergos is proceeding in three tranches. The tenders for the first tranche were publicly issued on October 25, 2000, and the sale will officially close on February 22, 2000. Several western firms have submitted an expression of interest and were placed on a so-called "short list," which enabled Ukraine to meet an important condition for the disbursement of the EBRD Fossil Fuel loan.

U.S. assistance also reaches Ukraine indirectly through IFIs, such as the IMF and World Bank. In September 1998 the IMF approved a three-year, $2.2 billion EFF loan designed to overcome balance of payments difficulties and to promote fiscal reform and accelerated development of a market economy. Disbursements under the EFF were conditioned on Ukraine pursuing more aggressive economic reform, improving foreign reserve levels and achieving a lower budget deficit. As noted earlier, in September 1999 Ukraine fell out of compliance with IMF standards and disbursements under the EFF facility were suspended. Actual disbursements of EFF loans amounted to $965 million. The IMF and Ukraine have recently agreed on a new Letter of Intent for reinstating the EFF. This letter was signed by the Ukrainian government and the NBU on December 7, 2000 and sent to the IMF, after Ukraine had met prior conditions on the budget and banking laws. The program is scheduled to go to the IMF Board on December 19, at which time they will consider resumption of the loan. As of October 2000, Ukraine had repaid the IMF $765 million for 2000 debt service. Strong foreign inflows, stemming from solid FDI and an improvement in the current account, made it possible for the NBU to service IFI and other private sector debts in 2000.

World Bank lending has largely stopped due to the lapse of IMF programs. But in October 2000 the World Bank received a letter of comfort from the IMF regarding program discussion and the macroeconomic situation. This letter allowed the Bank to disburse the final, $70 million tranche of the Coal SECAL in the absence of renewed IMF lending to Ukraine. The conditions of the final Coal SECAL tranche had been met by Ukraine earlier in the year. Earlier World Bank loans have promoted agricultural reform, privatization, modernization of the financial sector, and reform in the energy sector. In 1999 the World Bank extended $390 million worth of loans to the Ukrainian government. In September 2000 the World Bank adopted a three-year Strategy of Assistance for Ukraine. According to the strategy, the value of Ukrainian credit lines would range between $305 million and $1.4 billion over the next three years, dependent on the pace of implementation of economic reforms. Movement to the higher figure will require a rapprochement between the IMF and Ukraine as well as additional progress on reforms. If Ukraine implements a key banking sector law, it be eligible for a final, $70 million tranche of the World Bank FSAL by year end. This legislation, the Law "on Banks and Banking Activity," was passed by the parliament on December 8, 2000, and the World Bank is once again considering resuming its lending.

6. Significant Barriers to U.S. Exports

A daunting menu of taxes represents a major obstacle to trade with, or investment in, Ukraine. These taxes include a VAT, import duties and excise taxes. Import duties differ and largely depend upon whether a similar item to that being imported is produced in Ukraine; if so, the rate may be higher. The maximum import duty in Ukraine is currently 25 percent. A decree from the Cabinet of Ministers to reduce the maximum import duty to 20 percent in 2001 is expected to be approved shortly. Excise duty rates are charged in addition to import duties and range from 10 to 300 percent of the declared customs value, plus customs duties and customs fees paid for importing products. This often results in duties and fees amounting to over 100 percent of the declared value of the item. A new law “on Introducing Changes in Certain Legal Acts Re Taxation of Excisable Goods” entered into force in January 2000. Under the law the number of excisable goods dropped. Goods still subject to excise taxes fall into five main groups: alcohol, tobacco, oil products, automobiles and jewelry. Previously there were 20 groups of excisable goods. All imported goods are also subject to the VAT tax (currently 20 percent). The sole exception is energy supplies, which are technically subject to a VAT but have a rate of zero

. Ukraine's domestic production standards and certification requirements are arduous but apply equally to domestically produced and imported products and can thus be seen as an impediment to business in general rather than just to U.S. exports. Product testing and certification generally relate to technical, safety and environmental standards, as well as efficacy standards with regard to pharmaceutical and veterinary products. Such testing often requires official inspection of the company's production facility at the company's expense. Unfortunately, testing is often done in sub-standard facilities and on a unit-by-unit basis rather than "type" testing. In cases where Ukrainian standards are not established, country of origin standards may prevail.

Import licenses are required for very few goods. Goods that do require licenses include medicines, pesticides, and some industrial chemical products. The United States is urging Ukraine to enact legislation for optical media production. These licensing requirements would help to combat the severe CD piracy problem in Ukraine.

The significant progress made in the last few years on economic stabilization and the reduction in inflation have improved conditions for U.S. companies in Ukraine. However, foreign firms need to develop cautious and long-term strategies that take into full account the problematic commercial environment. The weak banking system, poor communications network, difficult tax and regulatory climate, prevalence of economic crime and corruption, non-transparent tender procedures, limited opportunities to participate in privatization, and lack of a well-functioning legal system, all serve to impede U.S. exports to and investment in Ukraine.

Ukraine currently has 21 Free and Special Economic Zones. Concessions granted to business entities that choose to operate in the zones include exemption from import duties and import VAT, as well as several other benefits. Rather than spurring new investments, these zones have primarily served to encourage existing firms to relocate to take advantage of tax breaks. There are also concerns that these zones are used to import simple consumption goods tax-free. IFIs have suggested that these zones be eliminated and that the government instead focus on improving the investment climate in the entire country. The government has agreed to study the effectiveness of these zones with the help of consultants and then to consider reducing their number.

7. Export Subsidies Policies

As part of its effort to balance the budget the government has significantly reduced the amount of direct subsidies it provides to state owned industry over the last several years. Nonetheless, subsidies remain an important part of Ukraine's economy, particularly in the coal and agriculture sectors. These subsidies, however, do not appear to be specifically designed to provide direct or indirect support for exports, but rather to maintain full employment and production during the transition to a market-based economy. The government does not target export subsidies specifically to small business.

In October 2000 the Council of Ministers of the European Union gave Ukraine the status of a country with a market economy. In addition to moving Ukraine closer to WTO accession, the new status indicates that subsidies to exporters are fewer in the eyes of pro-market entities, such as the World Bank, and will allow Ukraine to better protect its interests. Furthermore, in-kind subsidies (in the form of reduced tax payment) have been significantly reduced in the first half of 2000.

8. Protection of U.S. Intellectual Property

Since gaining its independence, Ukraine has made progress in enacting legislation and adopting international conventions to protect intellectual property rights, though much still needs to be done to reach the level required by Trade Related Intellectual Property Rights (TRIPS). Although the country's trademark laws should provide adequate protection, their enforcement has been weak. Piracy of well known consumer brand names is common business practice in Ukraine. Copyright piracy, espcially optical media piracy, is particularly severe. Whereas trademark piracy appears to be the work of many small-scale, apparently domestic interests, optical media piracy is highly organized and international in scope. In 1998 Ukraine was placed on the Special 301 Watch List because copyright piracy is extensive and enforcement is minimal, causing substantial losses to U.S. industry. On May 1, 1999 Ukraine was moved to the Priority Watch List. Ukraine has taken some steps to improve its IPR regime, in accordance with its two-year plan to make its IPR legislation TRIPS-compliant. In February 2000 Ukraine gained accession to the Geneva Phonogram Convention. However, Ukraine failed to extend the national regime to the holders of so-called neighboring rights (music producers) and has not provided for retroactive protection of existing rights. During President Clinton's visit in June of 2000, Ukraine and the United States agreed to a Joint Action Plan to combat Optical Media Piracy. The original goal was to fully implement the plan by November 1, 2000. The Ukrainian government failed to implement the plan. As of December 2000, the U.S. government was prepared to grant Ukraine an extension of the plan if it kept unauthorized production at the country's CD plants suspended and if it enacted the legislation foreseen in the Joint Action Plan by March 1, 2001. When the plan is fully implemented, it will be the most important IPR milestone in Ukraine to date.

Ukrainian legislation has inadequate criminal penalties for copyright piracy and none for infringement. Enforcement is negligible or non-existent. Courts do not provide a reliable means to address copyright infringement. According to the International Federation of the Phonographic Industry (IFPI) Ukraine is the world's biggest producer of pirate CDs, causing the music industry to lose at least $120 million annually. Inspections of several of the country's CD plants, a stipulation of the Joint Action Plan, confirmed reports that productive capacity far exceeds domestic demand for CDs. The inspections also revealed that Ukraine's manufacturers have been actively exploiting the severe deficits in Ukrainian copyright laws to export unlicensed music repertoire. Last spring the Ministry of Education and Science gained formal responsibility for IPR. Unfortunately, its leadership lacks the technical knowledge and management capabilities necessary to enact proper legislation or enforce said legislation. The government openly acknowledges its problems with piracy and actively seeks help from the United States in combating it. To achieve real reform continued U.S. assistance will be necessary.

Ukraine is a member of the Universal Copyright Convention, the Convention establishing the World Intellectual Property Organization (WIPO), the Paris Convention, the Madrid Agreement, the Patent Cooperation Treaty, the International Convention for the Protection of New Varieties of Plants, the Berne Convention, the Trademark Law Treaty, and the Budapest Treaty.

Ukraine intends to join the WTO. A working group in July with a bilateral follow-up in September met to discuss accession. The U.S. government has taken the strong position that Ukraine's IPR regime must be TRIPS-compliant at the time of accession, with no transition period

9. Worker Right

a. *The Right of Association:* The constitution provides for the right to join trade unions to defend "professional, social and economic interests."   Under the constitution, all trade unions have equal status, and no government permission is required to establish a trade union. The 1992 Law on Citizens' Organizations (which includes trade unions) stipulates noninterference by public authorities in the activities of these organizations, which have the right to establish and join federations on a voluntary basis. Despite these constitutional assurances, however, a new trade union law signed by the president in September 1999 introduced a requirement for unions to register with the Ministry of Justice. It also established categories of unions and limited the ability of newer unions to represent workers in nation-wide negotiations. This was brought before the Supreme Court of Ukraine, and in November 2000 the court struck down several restrictive provisions of the law.

In principle, all workers and civil servants (including members of the armed forces) are free to form unions. In practice, the government discourages certain categories of workers, for example, nuclear power plant employees, from doing so. The successor to the Soviet trade unions, known as the Federation of Trade Unions (FPU), often works independently of the government, but most FPU affiliates are closer to management. Independent unions provide an alternative to the official-FPU unions in many sectors of the economy but are generally much smaller than FPU unions. The new 1999 trade union law, drafted with the help of the FPU, hampers the activities of independent unions. Although to date the consequences of the law have been mixed, it is potentially a dangerous hurdle for the development of free and truly independent worker representation. Specifically, Articles 11 (scope of union type) and 16 (registration) are criticized by independent unions and the International Labor Organization (ILO). In 1999 the ILO publicly stated that the law was not in compliance with its Convention #87 on the freedom of association, to which Ukraine is a party. In August 2000 the AFL-CIO filed a petition with the United States Trade Representative to strip Ukraine of its GSP status, in part due to this law. In October 2000 the Supreme Court of Ukraine began consideration of a constitutional challenge to the law, and in November the court found several provisions of the law unconstitutional, prompting both a positive response from the ILO and the refusal by the USTR to consider the AFL-CIO's petition on Ukraine.

b. *The Right to Organize and Bargain Collectively:* The Law on Enterprises states that joint worker-management commissions should resolve issues concerning wages, working conditions, and the rights and duties of management at the enterprise level. The government, in agreement with trade unions, establishes wages in each industrial sector and invites all unions to participate in the negotiations. To participate in collective bargaining agreements, however, a union must obtain legal status through registration. In addition, to participate in nation-wide negotiations a union must meet requirements to be registered as a nation-wide union. Independent unions generally find the 1999 trade union law to be more restrictive than the old Soviet legislation because of difficulty in obtaining national status and registration. To acquire national status, a union must have representation in more than half of the regions of Ukraine, or at one third of the enterprises in a regionally based sector, or to have a majority of union members in the sector. Without a national level of registration the union cannot negotiate at the national level, in effect prejudicing the bargaining process against the independent unions and favoring the official unions. This aspect of the 1999 trade union law violates the ILO's Convention #87 on Freedom of Association and Collective Bargaining, to which Ukraine is a party. The law is further criticized by the ILO for its failure to amend an older collective bargaining provision whereby the largest unions (FPU) are permitted to represent all unions when a common bargaining strategy cannot be agreed upon. A new law, currently pending in Parliament, would give proportional representation to all unions engaged in collective bargaining negotiations. In the meantime, the Ukrainian Supreme Court struck down the provisions of this law requiring that certain benchmarks be met for a union to be able to bargain collectively at different levels.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits compulsory labor, and it is not known to occur. Human rights groups, however, describe the common use of army conscripts and youths in the alternative service for refurbishing and building private houses for army and government officials as compulsory labor. Student groups have protested against a Presidential Decree obliging college and university graduates whose studies have been paid for by the government to work in the public sector at government-designated jobs for three years or to repay fully the cost of their education. The extent to which the decree is enforced is unknown, but in 2000 there have been no recent reports of complaints from university students.

d. *Minimum Age for Employment of Children:* The minimum employment age is 17 years. In certain non-hazardous industries, enterprises may negotiate with the government to hire employees between 14 and 17 years of age, with the consent of one parent. The government does not specifically prohibit forced and bonded labor of children, but the only reports of such practices involve girls trafficked for sexual exploitation.

e. *Acceptable Conditions of Work:* The Labor Code provides for a maximum 40-hour workweek, a 24-hour day of rest per week, and at least 24 days of paid vacation per year. The law contains occupational safety and health standards, but these are frequently ignored in practice. Conditions are especially hazardous for miners. Mining accidents claimed the lives of 212 miners during the first half of the year. It is estimated there are 5.2 deaths for every one million tons of coal extracted. According to official statistics, 85 serious industrial accidents in which 141 workers were killed and 332 injured occurred in the first half of this year. In theory, workers have a legal right to remove themselves from dangerous work situations without jeopardizing continued employment. Independent trade unionists have reported, however, that asserting this right would result in retaliation or perhaps dismissal by management. In addition to poor conditions, many workers go without pay for months due to the poor status of the economy and the inability of many older enterprises to earn income.

f. *Rights in Sectors with U.S. Investment:* Enterprises with U.S. investment frequently offer higher salaries and are more observant of regulations than their domestic counterparts. Otherwise, conditions do not differ significantly in sectors with U.S. investment from those in the economy in general.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment in Ukraine—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		0
Total Manufacturing		(1)
Food & Kindred Products	6	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		-52
Banking		0
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		56
TOTAL ALL INDUSTRIES		50

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.