CONSTRUCTION AND BUILDING MATERIALS MARKET IN UKRAINE

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SUMMARY

The Ukrainian market for building materials offers sound opportunities to exporters. The developing Ukrainian construction industry is looking for new supply sources and contacts. Domestic production of building materials is lagging due to high-energy costs, obsolete technology and aging facilities. These conditions have increased prices for locally produced products, which in turn have provided opportunities for Western products.

The Ukrainian market for building materials is highly competitive. German, Italian, Scandinavian, French, and Spanish exporters are aggressively promoting their products. Many well-known European brands are represented at construction shows held in Kyiv. However, distribution systems are still in the process of development. Even major distributors are not able to serve as one-stop shops and consumers spend time searching for a product, quality, and price. Price and quality are the decisive factors in consumer preference.

Ukrainian distributors focus on high profitability, which seriously impacts the marketability of U.S. products. To reduce prices and increase competitive advantages, several European companies have established joint manufacturing of building materials in Ukraine.

Local building contractors use materials of foreign origin and new technologies. Building materials of German, Italian, Austrian, Spanish, French, and Scandinavian origin have gained a strong presence in the Ukrainian market. U.S. building products have increased their market share, but remain a small percentage of the overall building materials market.

Kyiv is well supplied with imported building materials. Pricing for building materials in more remote areas is higher then central and western Ukraine, although the gap is decreasing. Kharkiv, Dnipropetrovsk, Donetsk, Lviv, Odessa, and Zaporizhzhya offer potential for foreign exporters and investors interested in expanding operations into Ukraine. Cooperating with importers located or oriented to industrial regions of Ukraine may be advantages for U.S. exporters.

Building materials include a broad product range. This report focuses on the promising building materials market for interior application: rock wool insulation, paints, wall and floor covering materials (linoleum, carpeting, ceramic tiles and wallpaper).

A. MARKET HIGHLIGHTS & BEST PROSPECTS

1. Market Profile

In 2000, Ukrainian domestic producers of building materials, manufactured UAH 3799.6 million (USD 691 million) worth of product, this is 15% more than in 1999. But this increase does not reflect a development in the sector, since prices for domestic products rose by 20%. In quantity, domestic production actually dropped by 9% for the year 2000.

In most cases local production of building materials satisfies the need of the construction industry for reduced pricing, when compared to imported products. But this price differential is decreasing, making room for the importation of foreign building materials.

Suppliers of imported building materials from German, Italian, Turkish, Austrian, Spanish, French, Scandinavian, Slovenian, Czechoslovak, and Polish companies have gained a strong presence in the Ukrainian market. By comparison, U.S. building products have increased their market share, but remain a small percentage of the overall building materials market.

During spring and fall the demand for building materials is higher than in the winter. Winter construction and renovation projects typically stop due to unfavorable weather. Because of the low demand for building materials, prices for these products also decrease temporarily.

Ukraine regionally, is well supplied with imported building materials. Regional prices for imported products vary only slightly. The highest sales for building materials have been recorded in Kharkiv, Dnipropetrovsk, Donetsk, L'viv, Odessa, and Zaporizhzhya. Joint ventures with importers located in the industrial regions of Ukraine may be lucrative for U.S. building material exporters.

2. Statistical Data

MARKET SIZE TABLE FORMAT (US DOLLARS MILLIONS)

	1999	2000	2001	Projected Average Annual Growth Rate for Following 2 years (%)
Import Market	537	567	577	1%
Local Production	600	691	700	1%
Exports	335.8	409.5	412	1%
Total Market	801.2	848,5	865	2%
Imports from U.S.	12	18	18	

Last Year's Import Market Share (Percent for Major Competitors and US):

US: 2-3%; Spain 14%; Germany: 12%; Italy: 10%; Turkey: 8%

SOURCES (Note: Reliable, complete, and accurate statistics on production, imports, and exports of sporting goods are not available in Ukraine. Information contained in this report relies on sources that include government publications, opinions of industry participants, and unofficial U.S. Embassy estimates.)

3. Best Sales Prospects

It should be highlighted that NOT ALL imported building products have marketing potential in Ukraine. Low market desire is evident for imported cement, bricks (domestic production is abundant), clay roofing shingles (customers desire metal shingles or asbestos roofing materials), asphalt shingle, bituminous sarking and tar paper.

Moderate market desire is evident for metal roofing components (there are seven metal producers able to fulfill demand, although fixtures, sheeting and anti-corrosion components for production are imported). There are however, imported metal shingles available from Finland, Sweden, German and Poland. The Ukrainian State Statistics Committee indicates 600 thousand square meters of metal shingles were sold in Ukraine in 2000. Local producers feel that the demand will increase to 2 million square meters in the near future. A square meter of metal shingle presently sells for USD 7.00 to USD 20.00.

In cement, dry mixes are available (local producers are numerous but the quality is not always acceptable. Moreover, local production of mineral binding materials (gypsum and lime) is on the decline, stalling production. Nearly all-local manufacturers import chemical binding, conditioning, and coupling agents, (the prices of which have begun to rise).

Best prospects include – (and features that make them desirable)

a. Linoleum (imported linoleum has improved coloring, is greater than 2 meters wide),
b. Carpet and tufted floor covering (there is only one producer),
c. Interior ceramic tiles (imported tiles have improved coloring and size variety),
d. Wallpaper (better quality and coloring),
e. Insulation (imported mineral wool has improved packaging, variety of sizes and pricing),
f. Paints (local production is abundant for alkyd penta-phthalic oil paints but production of acrylic paint is developing).

The best prospect products by respective harmonized system (HS) numeric codes are:

6806.10	Slag wool, rock wool or similar mineral wool (including mixtures thereof), in bulk, sheets or rolls).
5904	Linoleum, cut to shape/or not; floor coverings of a coating or covering applied on a textile backing.
5703	Carpets or other textile floor coverings, tufted/or not.
6907	Unglazed ceramic flags and paving, hearth or wall tiles; unglazed ceramic mosaic cubes and the like, on a backing or not.

6908	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, on a backing or not.
3209	Paints and varnishes (including enamel and lacquer) based on synthetic polymers or chemically modified natural polymers, dispersed or dissolved in an aqueous medium
3214	Glaziers putty, grafting putty, resin cements, caulking compounds and other mastics; painters' fillings; non-refractory surface preparations for facades, indoor walls, floors, ceilings or the like
4814	Wallpaper or similar wall-coverings

B. COMPETITIVE SITUATION

1. Domestic Production

Ukraine's rich source of china clay (kaolin), limestone, fire clays, granite, gypsum, and glass sands, enables large-scale domestic production of building materials. There are over 1000 domestic producers of building material in Ukraine, 90 % percent of who are private, or joint stock companies.

Quantitative Production of Building Materials in Ukraine

Material	1999	2000	Quantity
Cement	7441.1	6676.3	Thousand tons
Bricks (baked or lime-sand)	2435	2142	Million units
Metal roof shingle	300	600	Thousand sq. meters
Clay Roofing shingles, Imbrex, pantile	111	159	Thousand sq. meters
Building lime, masonry lime	452.7	565.1	Thousand tons
Finishing lime	2915.6	2921.4	Thousand tons
Gypsum rock	311.5	303.9	Thousand tons
Gypsum plasterboard	4101.5	7254.7	Thousand sq. meters
Asphalt shingle, bituminous sarking and tar paper	24763.0	31893.3	Thousand square meters
Ceramic wall tiles	6000.6	6558.0	Thousand square meters
Exterior or facade	716.3	407.8	Thousand square

tiles			meters
Linoleum and vinyl floor tiles	3378.9	3278.4	Thousand square meters
Various dry mixes	24926.7	24881.4	Thousand cubic meters
Various porous insulation	490.7	404.3	Thousand cubic meters

Insulation
The production of mineral wool insulation is not commercially possible for Ukrainian producers, due to the high-energy costs and outdated technology at production facilities. In 2000, for the estimated 100,000 cubic meters of locally produced insulation, dealers and producers earned roughly US$ 3.5 million.

Wallpaper
The "UkrBudMaterialy" Corporation (The Ukrainian Building Materials) annually manufactures approximately 90 million rolls of wallpaper, worth more than USD 130 million on the wholesale market.

Local manufacturers supply approximately 40 % (equal to USD 100 million in retail) of the annual Ukrainian demand for wallpaper. Ukrainian wallpaper manufacturers export nearly 50 % (for an estimated USD 30 million) of their products to other CIS countries.
Noted examples include:
a. The Koryukov Factory of Industrial Papers exporting 33% of its products to Russia;
b. The Dnipropetrovsk joint venture "DneproMain" exports more than 50 % of its wallpaper to Russia.

The market price for wallpaper in 2000 remained unchanged from 1999. A ten-meter roll of locally produced wallpaper retailed for:
a. 4-6 Ukrainian Hryvnya (UAH) or (USD 0.72 - USD 1.09) - for paper wallpaper,
b. 5-12 UAH (USD 0.9 - 2.18) - For vinyl covered wallpaper,
c. 10-20 UAH (USD 1.82 - 3.64)– For foam acrylic wallpaper.

Paints and varnishes
There are nearly 40 loc al paint and varnish manufactures in Ukraine.

Domestic Manufacturers who are in operation include:
a. Open Joint Stock company, Dnipropetrovsk Lakokrasochniy Zavod
b. Open Joint Stock company, Symykhimprom
c. Closed Joint Stock company, Lakma
d. Closed Joint Stock company, Nifar (town of Nezhin)
e. Closed Joint Stock company, Elaks (Odessa)
f. Closed Joint Stock company, Raduga(vinytsya)
f. Open Joint Stock Company, Spektr (Lutsk, Volyn Oblast).

Most paints in Ukraine are alkyd (oil solvent, produced of penthpthalic components, white spirit, and other organic solvents). They are produced in a paste form, (a solvent is needed before use), and in liquid ready-to-use forms.

According to Ukrainian statistics in 2000, domestic paint manufacturers produced 95,589 tons of paint, which is 7,800 tons less than in 1999. Local production of paint, over the last few years has been on the decline. Domestic producers in most cases, use Ukrainian raw materials. Although for the production of “new water soluble and acrylic paints”, raw materials are imported. Half of all locally produced paints are for industrial use (machine building, furniture productions, etc.) or exported to Russia and NIS countries. The other half, or an estimated 45 thousand tons (USD 120 million in retail value), is sold for renovation and construction use.

Linoleum Floor Covering

Ukraine annually produces an estimated 3 million square meters of linoleum. For this volume it earned an estimated USD 12 million, which is 20 % of the market. In quantity, locally manufactured linoleum controls only 30 % of the market. Even though, five domestic plants have considerable production capacities (for example, the Odessa factory "Bolshevik" is capable of producing 16 million square meters of linoleum yearly, the Lutsk Paperboard and Ruberoid factory - about 3 million square meters annually), last year, they produced only about 2 million square meters of linoleum. The domestic sales product volume is very low and is practically un-available in construction material retail shops. Jute base linoleum of 3-millimeter thickness of Ukrainian origin sells for - USD 1.50 - USD 6.00. The average price for locally manufactured linoleum is within the range of USD 1.40 - USD 5.50 depending on the content of natural components.

Carpeting Materials

Carpets in Ukraine are produced by only one company, the JV Vinisin, in the town of Kalush, of the Ivano-Frankovsk oblast. The Vinisin Company is capable of producing over 1 million square meters of carpeting, but the supply of raw materials (threads, dies, etc.) prevents them from accomplishing this. Locally manufactured carpets have an estimated 20 % of the market. But in value the locally made carpets are only 10 % of the market (estimated USD 4 million). The present average pr ice for one square meter of locally made carpeting is UAH 20.00 (estimated USD 4.00).

Ceramic Tiles

Currently, according to Ukrbudmaterialy, Ukraine produces an estimated 7 million square meters of interior and exterior ceramic tiles annually at a value of USD 14 million. To the local market Ukrainian producers sell 6 million square meters, or 40 % of the market. In value, Ukrainian tiles only control 10 % of the market. Sales of domestic products to the local market have remained constant for the last three years. There are 10 local producers, the most successful are:

1. Kharkiv Ceramic tiles plants,
2. Lviv Ceramic plant,
3. Kiev Plant Keramik, and
4. Keram Perlit closed Joint stock Company,
5. Agromat Production Company.

Locally produced tiles are cheaper than imported ones. A one square meter 200 by 250-millimeter tile cost UAH 17.00 – UAH 22.00 (USD 3.00 - USD 4.00). Presently, local production of non-porous floor tiles is not developed in Ukraine.

Experts indicate that local production and sales of ceramic tiles in Ukraine has dropped. The decrease was caused by the poor quality of Ukrainian tiles. The drop was caused by outdated technology and poor production facilities, which are in need of modernization.

2. 3rd-Country Imports

A. Insulation

In value, imported mineral wool insulation materials accounted for US$ 16 million. Which is USD 4 million more than in 1999. In quantity, Ukraine in 2000 consumed an estimated 400,000 cubic meters of imported mineral wool insulation.

By variety, 55 % (USD 8.8 million) of the market belongs to basalt fiber wool. The remaining 45 % (USD 7.2 million) is fiber glass wool. According to market operators the market for insulation is expected to grow next year.

Foreign mineral wool is imported from Finland, Denmark, Germany, Poland, Turkey, Russia and other countries. Construction companies prefer to buy foreign mineral wool because of its quality, variety, availability and packaging size.

The most popular brands of glass wool are:

a. Isover (Finland)
b. Ursa (Germany).
c. Rockwool (Denmark) and Paroc (Finland) gained a strong presence in the Ukrainian market for basalt mineral wool.

According to Ukrainian experts these four brands together have a 60 % market share in Ukraine for mineral wool insulation.

A square meter of the cheapest mineral wool is offered for Ukrainian end-user starting from USD 1.05, the most expensive one - starting from USD 5.00.

The lowest prices for one square meter in USD are:

Paroc	1.30-1.40
Isover	1.25-1.30
Rockwool	1.20-1.20
Ursa	1.05-1.01

B. Wallpaper

Ukraine imports wallpaper annually for an estimated USD 150 (in retail prices).

By wallpaper types –
45 % (USD 67.5 million) of all sales are in the paper variety,

40 % (USD 60 million) of the sales are vinyl and silk-screened wallpaper,
10 %. (USD 15 million) primer or pre-coating wallpaper
5 % (USD 7.5 million) plaster-type wallpaper

Imported wallpaper is present in all outlets of local dealers. The brands available to the Ukrainian consumer and countries they are identified with include:

a. Seineks (Estonia),
c. Raufazer ASCreation, Rash, Marburg, Legokol, Erisman, RollOver, Club Creation, Salubra, Profi Line, Wallton (Germany),
d. Decori-Decori (Italy),
e. Vinilia, Esta (France), Columb (USA),
f. Arte (Belgium),
g. Vertex (Czech Republic).

Pricing for one square meter of imported wallpaper sold in Ukraine, is as follows:

a. Pure paper, USD 2.20 - USD 3.10
b. Vinyl covered, USD 2.70 - USD 4.20
c. Primer or pre-coating wallpapers USD 1.80 -USD 3.30
d. Plaster (paper pulp) wallpaper USD 2.00 -USD 6.00

Paper and vinyl wallpapers are the most popular in Ukraine. Plaster (paper pulp) wallpaper is available, but is not used because of cost, and application requires experience hard to find in local construction companies.

C. Paints and varnishes

According to distributor estimates, Ukraine imports USD 180 million worth of paints, annually. This amount is 60 % of the total domestic consumption.

In order to understand the internal dynamics of the market, the following crosscutting statistics on paint types, uses and costs is provided:

1. By paint type:
   a. 70 % (USD 126 million) - water emulsion paints.
   b. 15 % (USD 27 million) - enamels and oil paints,
   c. 10 % (USD 18 million) - varnishes
   d. 5 % (USD 9 million) - decorative plasters

2. By cost: Depending on specifics and origin,
   a. One kilogram of water emulsion paint, for $.50-$5.00,
   b. Enamel - $ 1.00 - $ 8.00,
   c. Oil paint - from $ 1.30 - $ 10.00,
   d. Varnishes and lacquers - $ 1.70 - $ 11.00.

The lowest paint prices are domestic and paints from Poland, Czech, Hungary, Slovakia, Bulgaria, and Turkey,
Cost: USD 1.20 - USD 5.00 per kilogram.

Average price ranges are associated with paints from Germany (DUFA, MIPA), Holland (SPS), and Canada (SICO).
Cost: USD 2.50 - USD 7.00 per kilogram

High-end imported paint brands sold in Ukraine are:
SADOLIN, PINOTEX, CASCO, SYNTEKO,
Dutch (AKZO NOBEL),
Finland (TIKKURILA),
England (ICI),
Sweden (LANDORA, BEKERS),
Estonia (VIVA COLOR),
Germany (CAPAROL, CLASURIT).
Cost: USD 4.00 to USD 9.00 per kilogram, but as high as USD 30.00 per kilogram

D. Linoleum Floor Covering
Annually Ukraine imports 7 million square meters of linoleum at a cost of USD 55 million. In quantity imported linoleum has an estimated 70 % of the market share.
In cost this market share amounts to 85 %. Experts expect linoleum to remain the basic floor cover in Ukraine. Though the tendency is for Ukrainian consumers to prefer greater natural material content.

The five largest dealers in Ukraine are:
1. "ALART", 2."Dekorservis", 3."Skandi", 4."Budpostachobject" and 5."Iskrasoft".
These companies offer primarily covering materials of
1. Tarkett-Sommer (Sweden, France, Germany),
2. Forbo (Sweden),
3. Gerflor (France),
4. Poliflor (England) and
5. DLW (Germany).

The companies indicate that a 3-meter wide by 3-millimeter thick linoleum from Yugoslavia is in demand. But this does not preclude that other sizes do not sell. Foreign linoleum of different widths is attractive to customers - from 2,5 up to 3,5 meters.

Linoleum of natural fibers (i.e. one having a composition of cork oak) is in demand on the Ukrainian market. Representatives of the Kiev branch of the Dnepropetrovsk Corporation “KorkStail and Co” sell USD 35 thousand worth monthly.

Floor covering linoleum comes in a wide price range, depending on producer, durability and quality. An average domestic producers sells linoleum for approximately USD 2.10 for 1 square meter. Prices for imported products are USD 2.50 - USD 10.00 for 1 square meter.

Retail prices for one square meter of commercial or heavy-duty linoleum are as follows:
a. Single-layer heavy-duty vinyl linoleum of 1.5-2.0 millimeter thickness from France costs USD 6.00 - USD 8.90.
b. Multi-layer heavy-duty vinyl linoleum of 2.0 - 2.4 millimeter from France and Sweden sells for USD 11.00 - USD 28.00

Retail prices for one square meter of household linoleum are as follows:

a. Felt-based linoleum of 3 millimeter thickness
from Czech Republic - USD 3.50
b. Jute basis linoleum of 3 millimeter thickness
from Yugoslavia - USD 3.50
c. Pure linoleum without base of 0.7 millimeter thickness
from Germany - USD 2.50
d. PVC base linoleum of 1.2-1.4 millimeter thickness
from Germany - USD 4.50
e. Natural base linoleum (40 % of a cork oak filling) of 2-2.5 millimeter thickness.
from Germany - USD 16.00 - 21.00
f. PVC base linoleum of 0.72-3.0 millimeter thickness
from Germany, France - USD 25.00-USD 32.00

E. Carpeting Materials
According to Ukrainian distributors about 4 million square meters of carpeting are sold annually for USD 40 million. Imports account 85 % of this. Numerous building material wholesaling companies sell carpeting from 10 foreign rug-carpeting manufacturers.

Carpeting produced from polypropylene thread has 60 % of the sales in the Ukrainian market. Carpeting made from polyamide threads accounts for 40 % of the market.

45 % of the customers choose rug carpeting for office floor covering but only 15 % of the customers prefer rug floor cover in their homes. In general, according to Ukrainian floor covering wholesalers, rug carpeting has a 20 % customer preference when they purchase floor-covering materials.

Leading Ukrainian wholesalers are:
1. Alart,
2. Dekor Servis,
3. Stek,
4. Merks and
5. Yeko-Kiev.

The following brands are popular in Ukraine:
a. Sintelon (Yugoslavia),
b. Balta, DOMO, ITC (Belgium),
c. Tapisift, Tecsom (France),
d. Valeant, Show Industries (U.S.A).

The price for imported carpeting varies from UAH 30 (USD 6.00) to UAH 70.00 (USD 14.00) for one square meter. Carpeting made of polyamide thread costs from USD 6.00 up to USD 16.00 per square meter

1. Low nap carpeting of two to five-meter width is sold by Belgium and Yugoslavia manufacturers. One square meter of such carpeting cost UAH 18.00 – UAH 24.00 (USD 3.27 - USD 4.36).

2. Canada, Belgium, U.S.A., and Yugoslav suppliers sell medium nap carpeting of three to five meter width. One square meter of such carpeting costs UAH 30.00 – UAH 50.00 (USD 5.50 - USD 9.10)

3. High nap carpeting supplied from Canada, Belgium, France and the U.S.A., usually three to five meters wide and priced at UAH 37.00 – UAH 130.00 (USD 6.72 - USD 23.70)

Recently, bright, colorful carpeting has received little demand. A floor covering with ornamentation and varying nap height has become popular.

F. Ceramic Tiles

According to the market, an estimated 7 million square meters of imported tiles were sold in Ukraine, for USD 126 million in 2000. In 1999 this figure was 10 million square meters for USD 120 million in retail costs.

According to Ukrainian statistics, Spanish tiles have 40 % of the imported market, followed by Italian (15 %) and Turkish tiles (10 %).

Ceramic Tile Trademarks sold in the Ukrainian market are:
-- Spain: Colorker Venus, Sanchis, Gubossa, NovogresItalgres, El Molino, Gaya, Mapsa, Metropol;
-- Italy: Marazzi, Valverde, Sichenia, Casalgrande, Pedana, Caesar, Cercom,, ArtisticoDue, Saicis;
-- Turkey: Kalebodur,Yurrtbay, Sogut Seramik
-- Czech Republic: Rako, HORNI, Briza
-- Slovakia: Kerko
-- Poland: Ceramika, Paradyz,Nova Gala
-- Germany: Meissen, Vileroy&Bosch, Agrob Buchtal, Steuler
-- Russia: Welor
-- Romania: Sanex
-- Belarus: Keramin, Elma, Belaz, Berezabudmaterialyt
-- Lithuania: Dvarcioniu Keramica

Ukraine varies in consumption preference of types of tiles. Nearly 70 % prefer wall ceramic tiles, while only 30% desire floor tiles.

Prices for Tiles are as follows:

a. Up to UAH 10 (USD 1.80 per square meter) –
65 % of the market – USD 60 million – Czechoslovakia, Turkey, Belarus, Ukraine and some Spanish and Italian tiles.

b. UAH 40 – UAH 100 (USD 7.27 – USD 18.20 per square meter) - 20 % of the market- USD 30 million Germany, Spanish, Italy

c. UAH 100 - UAH 200 (USD 18.20 – USD 36.40 per square meter) 10 % of the market - USD 40 million (In 1999 - USD 35 million) Germany, Italy, Spain

d. UAH 200 (USD 36.40) and more - 1 percent – 10 million

Imported tiles sell for 2-3 times the domestic varieties. Imported tiles purchased for USD 10.00 per one square meter, are sold by Ukrainian dealerships for USD 23.00 – USD 30.00.

3. U.S. Market Position

In the past several years, American companies have become stronger in the Ukrainian building materials market. However, German, Italian, French and Scandinavian companies have a strong influence in the Ukrainian building materials market. American companies prefer to work through established Ukrainian distributors. However, there are only a few Ukrainian distributors who represent products produced in Europe under U.S. technology or by U.S.-European joint manufacture. Ukrainian distributors advertise such products as being of European origin. It is therefore difficult to determine the origin of U.S. products in the Ukrainian market. In addition, the U.S. Commercial Service –Kyiv or BISNIS are not aware of all U.S. companies operating in the Ukrainian market.

U.S. - origin products, available in Ukraine is not as broad as that of those from Germany. Products being offered by U.S. companies include: false ceilings, doors and windows, roofing materials, panels, sun-protection films, roofing materials, lighting systems, insulation materials, vinyl floor tiles, carpet and tufted floor cover materials. Currently, the following U.S. building materials companies are represented in the Ukrainian market:

Armstrong (drop ceilings), AIDCO (insulated windows),
Black&Decker (electric tools, De Walt, Elu, BBW, Piranha,
Black&Decker trade marks), Celotex (drop ceilings),
Certain Teed Corp. (sidings), Dryvit Systems (Insulation),
Englert (aluminum panels with acrylic covering),
Georgia Pacific (panels), General Electric (lighting systems), Liquid Nails (nails), Ondura (roofing materials),
Southwall Technologies, Inc. (insulated windows),
TELEDYNE LAARS (swimming pools),
Solarmax (sun-protection window films),
Solar Guard Intern. (Sun-protection and energy-saving films),
Stanley (electric devices). Columbus (wallpaper),
Show Industries (carpet and tufted floor cover).

Several joint U.S.-Ukrainian manufactures have started operating in the past few years. They deal with the production of insulated windows and doors.

1. Ukr-West Window Ltd. is a joint venture between the American Industrial Development Corporation (AIDCO) and Production Association Orizon of Smela, Cherkassy Region, Ukraine. The joint venture produces energy efficient Polyvinyl chloride (PVC) windows and doors using U.S. technology, equipment, and materials. Ukr-West Window imports PVC extrusions and window and door components from the United States and Europe. All cutting, welding, and assembly of the PVC frames is done at the Smela plant.

There are two additional joint American-Ukrainian manufacturers of windows and doors in Ukraine:

3. Best International (Zaporizhzhya) produces plastic-aluminum insulated windows and doors, using materials imported from the U.S., Canada, and Europe, and

4. Interwindows (Odessa) produces windows, doors, and related aluminum products.

5. Since 1997, the American Company "OTIS" has been operating a joint venture "Ukr-Otis" for the manufacture of modern elevators in Kyiv. This joint venture can easily meet the demand of Ukrainian collective end-users and construction project developers.

6. In 1998, the Western NIS Enterprise Fund invested in the renovation of the Slobozhanska Budivelna Keramika (Slobozhanshchyna Construction Ceramics) plant in the Sumy Oblast. The plant was shut down in 1996 and was badly in need of investors. The plant was modernized with a modern mass mixing machine, forming complex, and two mills for clay mass preparation work. The plant's new production capacity equals 30 million items annually. Bricks produced at the plant will be packaged to prevent them from absorbing water. This joint U.S.-Ukrainian manufacturing venture will work to satisfy the increasing demand of the Ukrainian market and neighboring countries.

C. END-USER ANALYSIS

In the last few years, a distribution network has developed. The largest concentration of construction companies is centered in Kyiv. In Kyiv there are approximately 460 contracting firms, 230 design firms, and 400 distributors of building materials and trading companies.

Western-standard apartments, offices, and supermarket renovation remains a lucrative business in Kyiv. Approximately 80-90% of the building materials used in renovations are of foreign origin, which doubles the cost of renovations. The remaining building materials are purchased from Ukrainian manufacturers. Generally, building materials account for 56% of the overall cost of a construction project. Building material prices (both domestically and foreign made) have increased dramatically in the past few years. This has led to a significant increase in the cost of construction.

End-users of building materials can be classified into two major groups: direct end-users and indirect end-users.

Direct end-users may be sub-divided into general consumers and collective consumers. General consumers shape the market into two distinct spheres: (1). The market for the "average" Ukrainian citizen, and (2) the market for the "nouveau riche."

The general consumer in Ukraine expects construction materials of good quality, but within an affordable price range. Many average consumers are renovating their apartments and "dachas" (summerhouses) on their own. The most frequently requested products include wall coverings, floorings, ceramic tiles, paints, insulated materials, and bathroom and kitchen fixtures. General consumers primarily purchase these building materials in specialized retail stores. Unfortunately, not all the products shown in catalogs or on display may be available for sale. Thus, the consumer is unable to find all materials necessary for a renovation. Because of the high prices charged at small specialty shops, bazaars still keep a hold on distribution of inexpensive building materials. In Kyiv alone, there more than a dozen bazaars where building materials of local, Polish, and Turkish origin may be purchased for a reasonable price.

Ukraine's "nouveau riche" includes both Ukrainian and Western businessmen who demand Western-standard office and living space (which often goes for US$1,000 per square meter). Typically, new residential construction uses expensive imported materials; apartments are elaborate, consisting of at least 5-6 rooms. This new "elite class" is spending large amounts of money on the construction of new, single-family luxury "cottage" homes, which boast spacious rooms and gardens, swimming pools, high fences, and state-of-the-art security systems. This sub-group of general consumers prefers to renovate their residential premises with the assistance of local or foreign construction contractors.

Direct collective end-users include private local and foreign companies, Ukrainian state-owned companies, institutions, and organizations. Local and foreign private companies operating in the Ukrainian market are on the rise, due to the demand for renovation and construction services. Collective end-users use the services of local or foreign construction contractors. The general cost of construction services often includes the estimated cost of building materials before the contract is signed. Price, quality, and style in modern construction design, as well as the preferences of clients play a major role in the final cost of a construction project.

Indirect end-users

Local and foreign construction contractors are indirect end-users of building materials. These are private and state-owned local contractors and foreign private contractors. Contractors are the prized category of customers for distributors of building materials, since they buy in volumes and on a regular basis. Usually, foreign contractors sub-contract to small Ukrainian companies or employs local construction specialists. There are roughly more than a dozen foreign construction contractors in Ukraine who deal with the construction and renovation of state-owned property, commercial property, single family homes, industrial premises, and warehouses. Some of these contractors provide architect, design, and consulting services. Others prefer to work with completed designs. Austrian, British, German, Polish, South Korean, and Turkish contractors have been active in the Ukrainian construction market.

1. Perry & Associates is a U.S. company that has a strong foothold in Ukraine's building materials and construction market;

2. "Kyivmiskbud" company is one of the largest Ukrainian state-owned contractors of construction services;

3.LKS company (a German-Ukrainian JV) is a leading private contractor.

The Ukrainian supply system for building materials differs from the West. Buyers must deal with a collection of small, poorly- organized stores who are characterized by low inventories, poor customer service, and high prices. Utilizing distributors helps to expand foreign supply links and the assortment of products.

There are approximately 10 leading building materials stores:
1. Remax,
2. Buddetal (German-Ukrainian JV),
3. Skandi (Swedish-Ukrainian JV),
4. Dom Ekspo,
5. Domostroy,
6. Vist,
7. BudMax,
8. Agromat,
9. Enran, and
10. Sergo.

Consumers rate these stores high based on stock availability, assortment, price, and customer service. Major distributors work through their own network of shops and usually conduct wholesale and retail trade directly from their warehouses. Distributors of windows, doors, roofing, flooring materials, and drop ceilings often provide installation and after-installation / repair services for consumers. There are a few "elite" stores located in the center of Kyiv, but prices are nearly double the average retail prices.

Even the highly ranked stores lack a choice and brand name products, and as a result they also lack a choice of quality and price. Stores often cannot provide consumers quantity and an assortment of products. There are no one-stop shopping centers where consumers may find a range of products and services to meet their needs. To find specific building materials, or even basic ones, consumers must spend tremendous amounts of time in multiple stores.

Some contractors have direct supply contracts with foreign or local suppliers/manufactures of building materials. Unfortunately, materials selected at stores may not actually be available. Purchase orders may be placed with delays of up to one month in the actual delivery of the product. However, only contractors are serviced on the basis of a purchase order, with the full amount being paid on the day of the purchase order. This practice creates difficulties and delays in construction project implementation. General customers are not "privileged" to purchase orders, and must be satisfied with the assortment and prices available to them.

D. MARKET ACCESS

Familiarizing Ukrainian customers with a new brand name requires an advertising campaign. Participation in construction shows or exhibitions is effective in advertising building material products. Distributors of building materials and those established in the market often participate in construction exhibitions. Approximately 30% of a show's participants are foreign exporters, seeking cooperation with Ukrainian trading companies.

There are approximately 500 advertising agencies in Ukraine. Many of them perform a range of services that Western companies are accustomed to. Ukrainian television and radio advertising is on the rise and is considered a good form of advertising in Ukraine. Newspaper advertising remains popular, with half of the space in journals and publications consisting of advertisements. There is a range of publications devoted to construction and building materials industry. Foreign exporters may consider advertising in the following publications, available in hard copy and websites:

a. "Budmaister" magazine,
b. "Construction newspaper,"
c. "Inform-Bulletin of Derzhbud of Ukraine,"
d. "Our Home" magazine,
e. "Odessa Budivelna,"
f. "House" magazine,
g. "Construction and Reconstruction" newspaper, and
h. "Market for Construction Materials" register.

Construction companies and distributors may also take advantage of advertising in such foreign publications as the local English language newspaper "Kyiv Post". An advertising campaign may also include newsletters mailed directly to potential customers.

E. IMPORT CLIMATE

1. Certification

The certification procedure for building materials is mandated within the UkrSEPRO state certification system. According to the law, approximately 50 different building materials are required to be certified in Ukraine. These include products, which may have harmful effects on human life and health, or those that may effect the durability of constructions made of them. The certification of other building materials may be implemented on a voluntary basis, or if the certification of products is stipulated by the terms of a partnership / supply / purchase contract.

2. Taxation

Ukrainian import-export operations are subject to various taxes,
including but not limited to: customs duties, import duty, and value-added tax. Building materials are not subject to excise duty and import licensing. A 0.015% customs duty is ascribed to all imported goods, regardless of type or quantity. A value-added tax (VAT) is levied at 20% and is based on the customs value of the invoice. The import duty differs and largely depends upon whether or not a similar item is produced in Ukraine. The import duty, the customs duty, and the VAT are payable at the time of customs clearance.

Import duties for building materials do not exceed 20%. Currently, the customs duty rates for best prospect building materials are as following:

CUSTOMS DUTY RATES

Mineral wool:

6806.10.0000 Slag wool, rock wool and similar mineral wool (including mixtures thereof), in bulk, sheets or rolls – 10 %.

Linoleum

5904	Linoleum, whether or not cut to shape; floor Coverings of a coating or covering applied on a textile backing, whether or not cut to shape – 10 %

Carpet floor cover

5703	Carpets and other textile floor coverings, tufted, whether or not made-up – 10 %

Ceramic Tiles

6907	Unglazed ceramic flags and paving, hearth or wall tiles; unglazed ceramic mosaic cubes and the like, whether or not on a backing -10 %
6908	Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, whether or not on a backing -20 %

Paints

3209	Paints and varnishes (including enamels and lacquers) based on synthetic polymers or chemically modified natural polymers, dispersed or dissolved in an aqueous medium - 10 %
3214	Glaziers putty, grafting putty, resin cements, Caulking compounds and other mastics; painters' fillings; non-refractory surfacing preparations for facades, indoor walls, floors, ceilings or the like –20 %

Wallpaper

4814 Wallpaper and similar wall coverings – 25 %

Regulations/Standards

Since 1992, "Derzhbud" has attempted to create a national legal system in the construction industry, to coincide with international regulations. The creation of this system will formulate and govern export/import transactions with foreign countries. A classification system of state standards and regulations was initiated and started in Ukraine. The Committee plans to complete the development of the system of standards by the end of 2001.

With laws and regulations constantly changing, customs brokers have become important mechanisms to facilitate customs procedures. Brokers are responsible for preparation and the submission of all documentation, including certificates issued by local authorities. Broker fees vary, ranging from USD 200 to USD 300, depending on the value of a contract. Duties and import taxes are usually defined in the contract between the importer and exporters. New-to-market exporters are advised to consult with an attorney concerning the latest applicable duties and to carefully select a qualified customs broker, who is able to save an enormous amount of time, money, and aggravation in getting products to the purchaser.

In addition to customs controls, goods and other items that cross Ukrainian customs borders are subject to sanitary, veterinary, radiological, and ecological controls, stipulated in Ukrainian customs regulations. Goods will be "customs cleared" only after passing these requirements. The entities responsible for each control (i.e., ecological, etc.) are located in areas adjacent to customs points. After customs control has been passed, the inspecting entity stamps the customs declaration. The importer/freight forwarder of building materials should submit the following documents to the Ukrainian customs authorities:

- The signed contract;
- A cargo customs declaration with the description and value of the goods, terms of payment (i.e., cash, bank transfer, barter, etc.), and the terms of the shipment. If payment is made by bank transfer, the name of the bank, address, and account number should be included;
- A certificate of quality;
- A certificate of origin with production and expiration dates;
- A certificate issued by a foreign inspector stating that relevant quality controls have been completed in the country of origin.

Imported products are subject to compulsory certification in Ukraine. The certificates may be of two types:

(a) a certificate of acceptance of foreign certification issued by a Ukrainian certifying agency, or
(b) A certificate of conformance issued by a Ukrainian agency upon certification of goods. To apply for certification, the following documents issued outside Ukraine confirming the goods conformance to specific requirements are to be submitted to the Ukrainian-certifying agency:

- An application stating that the company wishes to certify the imported goods;
- A certificate of conformance;
- A standard (technical conditions) of production and the procedures for certification;
- A certificate of accreditation of the testing laboratory;
- A protocol/summery of tests;
- A certificate of quality control systems;
- A certificate of origin (manufacturing);

Building materials, which include in their composition hazardous materials are subject to labeling in Ukraine. The labels should be in Ukrainian and should include information on the manufacturer, product ingredients, and expiration dates for quality control purposes.

Pricing

Price, in addition to quality, is becoming a decisive factor in attracting the Ukrainian customers. However, suppliers of western-made building products in the Ukraine keep prices at a high level. This quest for high profitability can seriously impact the marketability of U.S. products. These suppliers target "elite" customers – recently emerged "nouveau riches" and contractors. Exporters with a focus on quick product turnover should consider the purchasing power of the average Ukrainian customer.

There are a number of factors that influence the determination of a price in Ukraine. Generally, the wholesale price of the Ukrainian importer 3X exceeds the initial purchase price. If a distributor operates through a network of specialized and department stores, the price will increase by 25%, which is taken by the stores as a commission.

Ukrainian importers prefer to buy on 30-60 days balance payment term, Letter of Credit payment term, or consignment term. CS-Kyiv strongly recommends initial sales be on the basis of 100% prepayment. After a U.S. exporter ensures the reliability of a Ukrainian partner, the U.S. company may be advised to consider other terms. U.S. exporters can also take advantage of letter of credit terms, which means that a foreign supplier gets the payments only after the shipment arrives at the Ukrainian port of destination and passes customs clearance.

F. DISTRIBUTION/BUSINESS PRACTICES

Foreign exporters entering the Ukrainian market prefer to work with local partners, who can provide valuable insight that might be missed by the foreign exporter. However, finding a reliable and competent distributor is one problem in Ukraine.

If a U.S. company plans to engage in a long-term business relationship with its Ukrainian partner, it is advisable to get to know the potential business partner. We recommend that U.S. exporters check the reliability and credit history of a potential partner through international firms providing financial and credit history on foreign firms before finalizing a contract with a Ukrainian partner. There are local companies that produce Dun & Bradstreet reports. BISNIS has also compiled a list of companies that perform due diligence services in the NIS. This is highly recommended for partnership deals in the NIS.

Financing

Credit in the Ukrainian private sector is scarce, and commercial banks remain risk-averse. The lending rates are high and loans remain short-term. Commercial bank loans are for 90 days or less, with most terms being 30 days or less. This precludes loans from Ukrainian commercial banks for most transactions, a problem affecting business in Ukraine. There are no restrictions on the prepayment of import contracts.

The safest method for receiving payment for a U.S. export is through an irrevocable letter of credit (L/C). To carry out hard currency transactions, a bank must be authorized by the National Bank of Ukraine (NBU). Authorized Ukrainian commercial banks are members of SWIFT (Society for Worldwide Inter-bank Financial Telecommunications).

U.S. exporters who request cash-in-advance payment (usually through money orders or certified bank drafts) need to be aware that many Ukrainian companies are strapped for cash and may need time to obtain funds. U.S. exporters, who are flexible in financing sales to Ukraine, enjoy an advantage in the market.

Sources of credit for export purposes:

1). Bankers' Association for Foreign Trade (BAFT). BAFT is an association of banks dedicated to fostering and promoting American exports, international trade, finance, and investme nt between the U.S. and its trading partners.

2). U.S. Small Business Administration (SBA). Although, SBA does not have a program designed for the NIS, qualified U.S. companies doing business in the region may apply for SBA financing.

3). The Export-Import Bank of the United States (Ex-Im Bank) is an independent U.S. Government agency. The Ex-Im Bank helps to finance the overseas sale of U.S. foods and services. Bank programs for Ukraine include short-term and medium-term coverage for sovereign risk transactions.

4). U.S. companies seeking financing for the export of goods or services with at least 51% U.S. content should also consider participating in **BISNIS FinanceLink Program**. BISNIS FinanceLink facilitates linkages between U.S. exporters seeking financing for deals where a buyer or partner has been found and U.S.-based financial service companies providing financing. Go to http://bisnis.doc.gov/bisnis/finlin3.htm

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