

# FOCUS ON

# UKRAINE



## ●● CURRENT MARKET SITUATION

Europe's second largest country by area, Ukraine is a land of agriculture and heavy industry with a population of 46.6 million people. Ukraine became independent in 1991 with the dissolution of the USSR, a date that marked the beginning of a new trend in the country's political and economic profile. In spite of problems such as the legacy of state control and corruption that weigh on Ukraine's shift towards a more democratic asset, many reforms have been implemented to introduce privatization and civil liberties.

Since the very first years after the declaration of independence, the market economy has begun to develop in Ukraine, but a real growth has been registered only since 2001. The country is carrying on processes of privatization, creation of favourable conditions for foreign investment, liberalization of market relations, and standardization of the legal system with the laws of the European Union. Though slowly, reforms are being realized in taxation, education and healthcare. Ukrainian Government eliminated most tax and customs privileges, bringing more economic activity out of Ukraine's large shadow economy. Despite such actions more improvements are needed, both in the economy and in the legislative framework.

During the first half of 2007, the GNP of Ukraine grew by 7.9% (compared with 5.5% in the first half of 2006). These excellent results look to continue, though slightly weakened (approximately 6% according to some rating agencies' forecasts) into the second half of 2007. Real GDP growth reached about 7% in 2006-07, fuelled by high global prices for steel, a main export for Ukraine, and by increased domestic consumption, thanks to rising pensions and wages, as is showed by the growth in available income (26% up on the previous year). But although the positive forecasts for 2008, long-term growth could be threatened by the government's plans to reinstate tax, trade, and customs privileges and to maintain restrictive grain export quotas.

In January-February 2008, the output of industrial products in Ukraine grew of 8.8% as compared to the same period of 2007 (13.9% in 2007), according to the press service of the Economy Ministry.

The highest growth was seen in enterprises producing non-metallic mineral products (22.2%), light industry (21.4%), engineering (18.6%), pulp and paper, publishing enterprises (16.0%), wood-processing and woodwork production, except for furniture (14.0%), chemical and petrochemical industry (3.7%).

During the first half of 2007, retail sales at markets increased by 30% compared with the same period of the previous year, while foreign investments increased by 70.5%, up to US\$ 5.24 billion. The main driving factors were the financial and banking sectors, which are being interested by a wave of mergers and acquisitions where European players take the lead. Foreign companies are in fact strongly present on the banking market, accounting for over 20%, and they are shaping it by investing their capitals into smaller and medium-sized banks, as well as buying-out second-tier financial institutions in order to create nationwide networks. This trend, however, had a positive effect on local banks which are increasingly harmonizing their systems with the international standards in order to obtain improved access to credit. Although the sound growth of the financial services market in Eastern Europe, some risks are still present in this sector, for several reasons:

according the Ministry of Economy, the inflation rate is rising to 14.5% this year, mainly due to high oil prices, discouraging Ukrainian people from stowing their savings in banks, and considering that Ukraine holds over US\$ 22.3 billion in dollar foreign reserves, the shrinking value of the US dollar is also a factor of uncertainty. The political situation and the lack of fiscal reforms also weigh on the country's economic performance, but these factors haven't apparently influenced investments.

## ●● IMPORT – EXPORT

The main trade partners of Ukraine are the CIS and Baltic States, Russia, USA, Germany, China, Italy, France, Poland, Turkey.

Ukraine's main exports are metals, fuel and petroleum products, chemicals, machinery and transport equipment, food products. Agricultural products account for 13.4% of Ukraine's exports while manufactured products account for almost 72% and fuels and mining for 13.6%.

The main imports are energy, machinery, equipment and chemicals. Agricultural products account for almost 8% of Ukraine's imports while manufactured products account for 59.6% and fuels and mining for 31.5% (figures for 2006).

According to the World Bank, merchandise of exports in 2006 reached US\$ 38,3 billion, while merchandise of imports was estimated at US\$ 45 billion. The figures for the same year as regards merchandise of commercial services are US\$ 10,6 billion for exports and US\$ 8,4 billion for imports.

## ●● INFLATION AND THE EXCHANGE RATE

Increases in social spending and the performance of energy prices continue to apply pressure on prices. The increases in spending on municipal services and public utilities, as well as in the prices of consumer products, are having remarkable effects on the population. According to the Ukrainian State Statistics Committee, the inflation rate reached 4.2% in the first half of 2007 (2.9% in the first half of 2006). Average nominal salaries rose by 26.2%, while real ones by 12%.

As regards local currency, in 2007 the value of the *hryvnia* was stable with respect to the dollar, its benchmark currency, but the euro strengthened by approximately 5% from the beginning of the year: from 1 euro = 6.57 *hryvnias* in January to 1 euro = 6.90 *hryvnias* at the end of June.

## ●● INTERNATIONAL POSITION

The European Union has recognized Ukraine the status of market economy in 2005, but several applications for increased integration within the international economic and financial system remain open. The access to the World Trade Organisation (WTO) has been approved by the General Council on last February 5th, and Ukraine will have to ratify the deal by 4 July 2008 to become an effective member 30 days after the ratification.







As reported by the WTO press release, "Ukraine will have its customs duties capped at rates ranging between zero and 50% (bound rates). Some bindings involve reductions phased in over a period of up to 2013"<sup>1</sup>.

Ukraine's average tariff bindings are 10.66% for agricultural products and 4.95% for industrial goods.

Product categories with lower tariffs that will initially or eventually be eliminated include "civil aircraft, construction equipment, distilled spirits, certain types of fish, pharmaceuticals, certain chemicals and petroleum oils, medical equipment, wood, pulp & paper, certain yarn and fabric, certain base metals, steel, information technology products (ITA), furniture, and toys.

Ukraine has agreed not to apply any other duties and charges beyond its ordinary customs duties"<sup>2</sup>.

As regards the specific market access for services, "Ukraine has made specific commitments in all core service sectors — including business, communication, construction and engineering, distribution, education and environment, finance (insurance and banking), health and social services, tourism and travel, recreation, cultural and sporting services, and transport — as well as in other areas including beauty and spa".

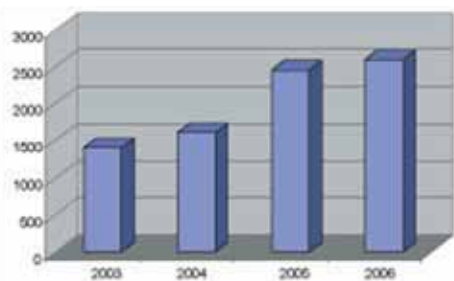
<sup>1</sup> [http://www.wto.org/english/news\\_e/pres08\\_e/pr511\\_e.htm](http://www.wto.org/english/news_e/pres08_e/pr511_e.htm)  
<sup>2</sup> [http://www.wto.org/english/news\\_e/pres08\\_e/pr511\\_e.htm](http://www.wto.org/english/news_e/pres08_e/pr511_e.htm)

### ●● GENERAL INFORMATION ON HEALTH

Health is a very important state priority in the Ukraine. The major part of the Ukrainian health care system still belongs to the state and is financed from the state budget, but a long-awaited health insurance reform is expected in the near future. The main organizational-administrative body in the Ukrainian health system is the Ministry of Public Health which implements state policies in the field of medical care. By January 1st, 2006, there were approximately 20 state-funded health programmes.

To achieve the necessary structural changes in the health sector and to increase its efficiency, the "National Development Plan for the Health System of the Ukraine from 2006 to 2011" (the so-called road map for the reform of the health system) was drawn up and approved by the National Ukrainian Assembly of Medical Operators in February 2006. The National Council for the Protection of Public Health was established to co-ordinate the implementation of the health reforms.

A vigorous programme of state funding for the health service is taking place in the Ukraine, with over 2.6 billion € spent on the system in 2006, exceeding the 2005 index by 6%.



Growth in health funding in the Ukraine from 2003 to 2006, millions of €

### ●● THE DENTAL SECTOR IN UKRAINE

Dentistry is experiencing a fast privatization process, being addressed by reforms such as a specific state project entitled: «Programme for the prevention and cure of dental disease from 2002 to 2007».

In 2005, special funding for this programme amounted to 1,665,000 €. However, less than 50% of the programme was completed, and

purchases of dental equipment using the state funding earmarked for this programme amounted to approximately 800,000 €.

The dental workforce in Ukraine counts 19 000 dentists, 4 600 state clinics, 5 000 private clinics. Each year 1 500 young dentists are educated at 12 faculties of medical universities of Ukraine and dental academies.

The Ukrainian Dental Association was established in 1958 and today its members are over 9 000 dentists and dental technicians, organized in 27 regional associations. Since 1998 the Ukrainian Dental Association is a member of the World Dental Federation (FDI).

### ●● THE MATERIALS, INSTRUMENTS AND EQUIPMENT MARKET IN THE DENTAL SECTOR

The dental materials and instruments market in the Ukraine is enjoying dynamic growth. The average annual increase in the market over the last four years amounted to approximately 35-40%, with a structure dominated by imports. There are no precise figures about the volume of dental materials, instruments and equipment traded on the Ukrainian market, mainly because of the large amount of uncontrollable imports and the existence of broad hidden bookkeeping by both suppliers and consumers of equipment and materials. This hampers statistical calculations and the possibility of collecting sufficient data on the state of the market and of its development.

The official figures provided by the Ukrainian State Statistics Committee and Customs Committee, however, show that at the end of the 90s, almost 95% of equipment and materials came from foreign producers. A large number of health cooperatives were set up in the Ukraine, many of which quickly became dental clinics. The development of dentistry required new technologies, equipment and materials, but domestic companies were unable to supply quality products because they were using obsolete production techniques. Foreign companies therefore became the main suppliers of equipment and materials for the Ukrainian dental market.

The needs of the market are still extensive, because the majority of dental equipment in public dental clinics is now outdated and should be replaced. The fast development of a private sector also increases the demand for high-quality equipment, tools, account materials, medicines, preventive and hygienic means, but the need must still be mainly covered by import, as there are no more than 20 large and small local manufacturers, and they are not competitive enough with foreign manufacturers.

The largest market share of domestic-produced materials and equipment is held by the Kharkov-based "Stoma", whose products account for 90% of domestic production, but joint ventures and smaller mixed enterprises occupy the niche of the domestic production of equipment.

Given the development and saturation of the sector of expensive dental services, Ukrainian consumers are showing increased interest in new technologies, thus giving input to a broader use of new materials and technical innovations. Because of the strong market demand for the introduction of new technologies in dentistry, good opportunities exist for establishing training centers where doctors and dental technicians can get acquainted with new technologies and materials. This sector will become even more saturated in future and the sector of services for the middle classes will continue to develop.

The main buyers of dental equipment are private distributors and private dental clinics, but the state clinics are also potential clients. As regards the sale of dental equipment, account materials and hygienic means, penetrating the market requires dealers who already have an extensive network for sale and the ability to identify buyers. More than 150 foreign manufacturers currently produce and supply dental equipment and instruments for the Ukrainian market. This

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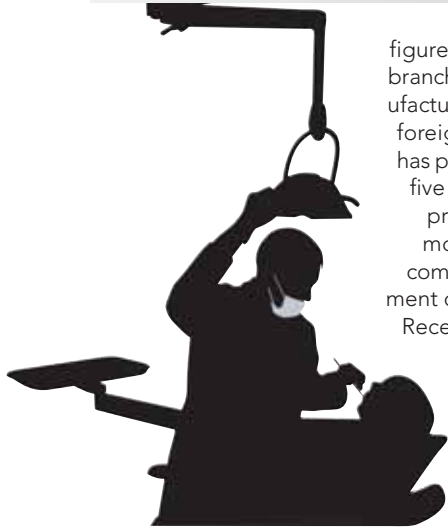


figure includes both the official branches of foreign companies-manufacturers and the official dealers of foreign manufacturers. The market has practically tripled during the last five years. Joint ventures and new projects may be considered the most viable options for foreign companies who are seeking investment opportunities in Ukraine.

Receptivity of the market for used dental equipment is average; as the price difference between the local and imported used equipment has narrowed, the motivation to purchase used equipment has also decreased. However, a

potential market for used dental equipment still exists.

According to expert evaluation, the volume of "grey" imports amounts to 35%. Domestic production covers approximately 15-16% of total market capacity, while 84-86% of materials and equipment is imported.

After adjusting for "grey" imports, market capacity in 2005 was estimated to 35 – 37 million Euros; this figure exceeds that of 2004 by more than 30%. This market growth is caused not so much by increased volumes but rather by the elimination of submerged import schemes. Most imports have now become transparent and this affects the statistical indices.

In 2005, the capacity of the dental equipment and materials market amounted to approximately 27 million Euros (*Official figures of the Ukrainian State Statistics Committee*). But according to the Ukrainian Ministry of Public Health the potential capacity of the Ukrainian market, related to the dental service needs of the population, amounts to approximately 200-250 million Euros and, after reaching European development levels, is likely to rise to approximately 500 million €.

### •• GEOGRAPHICAL CONCENTRATION OF CONSUMPTION

The geographical areas of consumption of dental equipment, materials and instruments include the capital of Ukraine, Kiev, as well as cities with long-standing centres for dentistry.

These are Odessa, Kharkov, Lviv, Donetsk and Dnepropetrovsk. In the Autonomous Republic of Crimea the main centre of retail and small wholesale consumption is Simferopol, where one of the largest suppliers of dental materials and equipment - Krim Med-market - is based.

This geographical division of demand depends on several factors:

- these cities are large industrial centres; the purchasing power of the population is sufficiently high to pay for dental services.
- these cities enjoy long-standing traditions of dentistry and have a large number of dental clinics and surgeries, plus many private doctors. The specialised institutes in these cities guarantee a continual input of staff.

It is also interesting to note that special dental tourism trips are organised to some Ukrainian cities (Lviv, Odessa, Lutsk, Kharkov). Tourists from Germany, Canada, Australia and other countries come here to benefit from dental services, prostheses and other quality services at Ukrainian rates which are considerably lower than Euro-

pean ones. For example, the average price of a photopolymer filling at clinics in Odessa, Kharkov and Lviv can be as low as 10 €. Implants start from 250 €, removal of tartar can cost 15 €, a non-metal capsule comes at 85 € and braces cost from 400 € per jaw. Costs for these services are 25-50% higher at clinics in Kiev. Since the quality and quantity of dental services in these cities is considerably higher than in the rest of Ukraine, there is a high demand for quality equipment and materials, as new clinics and new surgeries open more frequently.

In Odessa, Lviv, Kiev, Kharkov and a few other cities, there are from 80 to 100 dentists for every 10,000 people. This figure is double than the Ukrainian average, thus confirming the unequal distribution of dental services and workforce across the country.

### •• THE DISTRIBUTION NET

Approximately 250 companies sell dental equipment and materials in the Ukraine. About 20 of these are very large and are mainly located in Kiev. For example, and just to mention some, "Ukrmed" markets implants by Anthos (Italy), Visiodent (France) and Gnatus (Brazil). "Krastar-Plus" exclusively represents the companies Shin-hung, Ultradent and JenD and offers the products of another two dozen companies. The company has its own training centre and publishes its own newspaper. "Oksia" markets the products of over 15 companies (Dentsply, Kulzer, etc.). "ELD" (from Khust, a town in the Zakarpatskaya region) is a leading seller of implants by Chirana-Dental, Chiromega, Chirana, Medilux and Trystom. SP "Promed" is specialised in Slovakian companies. Italian equipment and American materials are supplied by "Polit". "Infoline" sells products by leading international companies, as well as companies from Russia and Belarus. In the eastern regions, main international companies are represented by "Medservis" (Donetsk), "Tekhnodent" (Kharkov), Technology group (Kharkov) and "DentLand" (Zaporozhie). Galit (Ternopil) sells the X-ray equipment of the Italian company CSN Industrie.

Some foreign manufacturers prefer to promote their products on the domestic market through dealers (KERR, GC, Sirona). However, other producers promote their own brands personally.

The main Ukrainian market trends in materials and equipment include:

- Improvement of applied technologies: new European developments are introduced to the Ukraine extremely quickly, often within a month after their market launch (this applies mainly to companies represented in the Ukraine).
- Decrease in imports of used dental equipment.
- Development of domestic production: in spite of the fact that a great part of the market is controlled by importers, Ukraine is developing its own production of equipment and materials. While domestic products covered approximately 5% of the market in 2001, in 2005 this percentage rose to 15%, thus confirming a slow but constant growth.
- Development of new forms of trade such as dental depots: dental depots are common in European countries, but in Ukraine, this form of trade has only existed for about 2 years. In the future, the number of dental depots will probably increase and their training centres will continue to be developed.
- Combination of equipment and training sales: training centres can be found in many distribution companies, as well as in clinics working with the equipment and materials provided by a supplier.
- Equipment is generally imported by specialized companies. Transport companies do not import more than 15-20% of dental material and equipment.

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●● **STRUCTURE OF MARKET SEGMENTS - EQUIPMENT AND INSTRUMENTS**

In 2005, the equipment and instruments supply for the dental sector amounted to approximately 9,3 – 9,4 million €, 4% of domestic products and 96% of foreign products.

According to estimates, dental instruments and equipment amounted to approximately 11 – 14 million € in 2006. Most of the equipment considered in this figure comes from foreign manufacturers.

The leading suppliers of equipment in the Ukraine in 2005 were:

Trade name	Country of origin	Market share in 2005
Chirana	Slovakia	22.5%
KaVo	Germany	6%
Gnatus	Brazil	5%
Sirona	Germany	5%
Planmeca	Finland	4%
Olsen Industria	Brazil	3%
3M	USA	2%
A-DEC	USA	2.1%
Aleks	Russia	2%
CSN Industrie	Italy	2%

These brands account for over 50% of equipment imports to the Ukraine.

Ukrainian importers mainly deal in appliances and instruments such as burs, brushes, scalpels, drills, probes, etc. According to the figures, main suppliers of equipment for dentistry are *CHIRANA (Slovakia)*, *KaVo*, *SIRONA (Germany)* and *GNATUS (Brazil)*.

●● **CONSUMABLES**

In 2005, the value of this segment was 18 million Euros. Domestic products amounted to approximately 21 – 23% with foreign products accounting for most of the sum (77 – 79%). The value of the consumables market was estimated to reach approximately 23 – 27 million € in 2006, made up mostly by imported materials.

In 2005, materials for dentistry were imported by over 60 producers and brands from 20 countries.

The leading suppliers of materials in 2005 were:

Trade name	Country of origin	Market share in 2005
Dentsply	USA	11%
3M	USA	14%
Dental Technologies	USA	12%
HERAEUS KULZER	Germany	9%
GC EUROPE	Japan	7%
DeguDent	Germany	6%
SpofaDenta	Czech Rep.	14%
VITA	Germany	3.5%
KERR	USA	4%

Materials for filling, reconstructing and treating teeth, capsules and false teeth in various materials, precious metal alloys for fillings and other consumables are for the greater part imported into the Ukraine. Photopolymers are the most requested materials by Ukrainian dentists. Practically all the leading companies operate in this segment: *Dentsply (USA)*, *3M (USA)*, *KERR (USA)*, *HERAEUS KULZER (Germany)* and many more. Metalceramics and ceramics are also requested and these are supplied by *Ducera (Germany)* and *Ivoclar/Vivadent*.

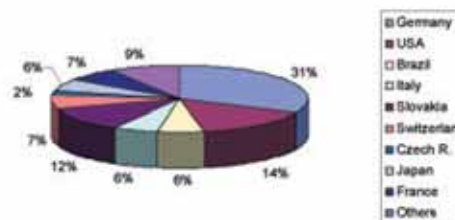
●● **TOTAL VOLUME AND STRUCTURE OF DENTAL IMPORTS IN THE UKRAINE**

In 2005, imports of dental materials, instruments and equipment amounted to 22,6 million Euros.

Imports of materials amounted to approximately 14 million €, accounting for about 60% of the import, while imports of instruments and machinery amounted approximately 9 million €, comprising approximately 40% of total imports.

In the first six months of 2006, imports of materials, instruments and equipment amounted to 13,2 million Euros. Compared with the first half of 2005, imports of these products in Ukraine grew by 38%.

Import structure in 2005:



Total amount: 22,5 million Euros

of which (million €):

Germany	7,2
USA	3,4
Slovakia	2,6
Switzerland	1,54
France	1,47
Brazil	1,26
Italy	1,26
Japan	1,24
Czech Rep.	520,000 €
Others approx.	2

The main exporting countries account for over 90% of total imports of dental materials, instruments and equipment. Ukrainian imports of dental materials, equipment and instruments are quite well-structured. Most products are imported by large importers, while new importers of equipment and materials are not likely to enter the market in the short term. Instead, market shares could be redistributed among the current players.

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