



Oil & Gas and Related Services

Opportunities

Since independence, Ukraine has faced serious economic problems as a result of the radical transformation of the economic and political systems, but its potential makes it very attractive for investments. However, foreign investment is hampered by regulatory confusion. Ukraine is an undeveloped market that offers many opportunities for investment and a potential high rate of return. For the potential foreign investor, there are many features of Ukraine's political, social and economic spheres that contribute to a positive business environment.

There are wide opportunities for investment, particularly in oil and gas exploration and development. For the last thirty years under the Soviets, geological exploration was concentrated in Western Siberia. Out of four main oil and gas regions in Ukraine (Dnipro-Donetsk Depression, Western Ukraine, Black Sea Offshore and Southern Ukraine), geological exploration has only covered 30% of the first two provinces. Large and promising areas have not yet been covered even by general geological research. All indications point to significant oil and gas reserves, perhaps as large or larger than those in Alberta. Moreover, inefficient Soviet technology and poor resource management has left existing fields underdeveloped. This places Ukraine in a very favourable position compared to major European countries. Many major oil and gas companies like EXXON, MOBIL, SHELL, BRITISH GAS and others have already shown their interest in exploration and development of oil and gas in Ukraine.

The Ukrainian oil patch is marked by a lack of financial resources and continuing use of antiquated technologies not only for exploration, but also for the development of producing wells. The lack of modern technology is explained by the fact that for the last 20 years there has been almost no investment in upgrading of local technologies. This creates significant opportunities for foreign technologies and expertise in the operation and supply of products and services, as well as in the distribution and transportation of products to consumers or refineries.

Enormous market pressures for speedy reform run headlong into the breathtakingly complex maze of bureaucracy that is the legacy of the former Soviet Union. This massive infrastructure is struggling to keep abreast of market demands and parliamentary reform of existing laws and regulations. The pace of change often leads to murky areas open to interpretation and conflict between overlapping government agencies, state-owned complexes and private companies.

Geology and Petroleum Potential

Ukraine is one of the oldest oil and gas producing countries of Europe. Since the 17th century, Ukraine has been known to have oil deposits in the Carpathian region. Actual oil production began as early as 1771 in the Slobod-Rungurs field. Oil-gas bearing basins cover an area of 274,000 sq.km. or 46% of the territory of Ukraine. Today, potential resources in Ukraine are estimated to be 8,643.7 million tons of oil equivalent, consisting of 79.8% gas, 12.5% oil, 5.3% condensate, and 2.4% dissolved gas.

The accumulated oil production of Ukraine is now approximately 325 million tons (with condensate) and over 1,600 billion cubic metres of gas. The highest level of oil production was reached in 1972 (14.4 million tons), and of gas production in 1975 (68.3 billion cubic metres). Since these dates the rate of hydrocarbons production has fallen dramatically, measuring 4.2 million tons of oil and 19.2 billion cubic metres of gas in 1993.

However, oil-gas basins leave significant reserves of hydrocarbons, as can be seen in the following table:

Hydrocarbons Reserves

Region	Oil (mln.tons)	Gas (bln.m ³ .)	Condensate (mln.tons)
Dnipro-Donetsk Depression (1)	94.3	979.8	74.6
Carpathian (2)	56.9	135.5	2.5
Crimean (3)	3.2	57.3	3.2
Including offshore	-	46.8	1.4
TOTAL	154.4	1172.6	80.3

(1) Main oil and gas bearing region - more than 180 fields have been discovered there.

(2) Second most important reserves, located in Western Ukraine.

(3) Black Sea Offshore and Southern Ukraine (approx. 104,000 sq.km.) - includes the Northwestern Continental Shelf, the Pre-Crimean strip of the shelf (Sevastopol-Yalta-Kerch), and parts of the continental slope and the deep-water Black Sea depression. Numerous commercial oil and gas fields have been discovered throughout the region.

Construction Products and Related Materials

Opportunities

In the 1980s the construction and building materials industry accounted for 15-20% of Ukraine's GNP. It was a well developed sector that met domestic demand and exported Surplus production to other countries and other parts of the Former Soviet Union (FSU). Starting in 1991, production of construction and building materials has fallen off by more than 30%.

In 1993, the Ukrainian construction sector was composed of more than 10,000 state and private firms and the number of people engaged was estimated at 1.3 million. Private companies accounted for 36% of all enterprises, and 28% of the volume of production.

The most promising opportunities for Canadian businesses are in the following areas:

- ◆ individual cottage construction;
- ◆ construction materials manufacturing and sales;
- ◆ office repair and renovation; and
- ◆ office building construction.

Constraints

There are a number of large foreign companies from Europe (Germany, Austria, Finland, Poland, Turkey) involved in the construction business in Ukraine (mainly in residential buildings, hotels and office renovation). A number of foreign companies or joint ventures have received licences to construct modern office buildings, but so far none in Kyiv have been built.

There is severe competition among the local and foreign companies involved in the sale of building materials. Most of the materials imported are of higher quality (and also more costly) than locally manufactured goods. To improve their competitive position, some foreign companies have established joint ventures in building materials to enable them to preserve higher quality and to reduce costs. In general, prices for construction work and materials are comparable with those found in the rest of Europe.

As the government no longer provides funds for investment purposes, capital for investment projects is secured from private investors or from the customers themselves. In establishing a joint venture, a foreign company's contribution to the joint venture statutory fund can be money, equipment, or know-how. There are many examples of foreign companies contributing very simple western-made tools and know-how. These have resulted in significant improvement to the quality of goods manufactured.