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MARKETING AND INVESTMENT IN THE GRAINS AREA
UKRAINE AND RUSSIA



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Manhattan, Kansas 66506-2202
USA

MARKETING AND INVESTMENT IN THE GRAINS AREA
UKRAINE AND RUSSIA

by

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for

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Food and Feed Grains Institute
Manhattan, Kansas

September 1992

The contents, recommendations, and conclusions contained in this report do not necessarily reflect the views and policies of the United States Agency for International Development.

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SECTION I
GRAIN STORAGE

Existing facilities for grain storage in both Ukraine and Russia consist of the State Elevator System and storage on collective and state farms. The design of these facilities is the same throughout both countries.

State Elevator System

The design of newer elevators is vertical concrete (pre-cast block cell type) structures. The team was informed that elevators of this design were constructed beginning in the middle 1970s. There was no evidence of aeration systems in any of the elevators inspected, although there were air systems for dust control.

Older storage complexes, built in the 1950s, consisted of flat storage buildings, with legs and belt conveying systems for handling of grain. There is a vertical elevator of slip-form concrete construction in one of the complexes inspected. The use of the slip-form concrete construction technique has not been a part of the elevator construction process for at least 25 years. The flat storage units are rectangular buildings built of concrete block and stone approximately 50' in width and up to 200' long. These buildings have aeration ducts in the floors with access for fan units in the walls of the building. All of these types of complexes are in poor condition due to a lack of maintenance.

Both elevators and older storage complexes have grain drying facilities.

Collective and State Farm Storage

Nearly all of the on-farm storage facilities observed are rectangular buildings constructed of block or stone, approximately 50' wide by varying lengths of up to several hundred feet long. The roofs are generally pitched 1:4 or 1:5 and constructed of corrugated asbestos sheets, placed on wood rafters. Doors are generally the double swing type, 18' wide x 12' high, and do not have a tight enough fit to be considered rodent-proof. The eaves are generally open, and certainly not bird-proof. The buildings are the same general design as the flat storage buildings in the state elevator system, however, at no location visited was any aeration equipment observed. Most of the farms have grain drying facilities.

These buildings are of the same general design as the flat storage warehouses in the older State elevator complexes. The exception is that there is no aeration system.

The use of corrugated galvanized steel in the construction of grain storage, either in the state elevator system or on farms is an area in which there is little knowledge.

Individual Private Farms

Since the privatization process is relatively new, little or no storage exists on individual private farms. Only two instances of storage were observed by the team. In one case, a group of 25 farmers had purchased an older storage complex from the State and were utilizing this facility to dry and store grain. In another case, a three-family farm was constructing a metal flat storage building in which to store grain.

SECTION II

UKRAINE

Ukraine, located in the southern part of Eastern Europe, shares borders with Byelarus, Russia, Moldova, Poland, Hungary, Romania, Czech, and the Slovak Federal Republic. Ukraine is mostly plains except for the Carpathian Mountains in the west and the Crimean Mountains along the southern edge of the Crimean Peninsula. The population is estimated at 51.9 million.

Summary of Privatization

Price liberalization, privatization, land reform, agricultural reform, and agriculture support have received considerable attention from the government. Many viewpoints are being considered and discussed. A privatization law was passed by parliament about four months ago and then immediately repealed. A new privatization law is currently under consideration. In the interim, privatization of industry and agriculture is proceeding in a slow, measured manner.

The privatization movement is just beginning in agriculture. In the spring of 1992, 6,800 private farms were registered with 132,000 hectares of land, including 107,600 hectares of cultivatable land. These private farms average 20 hectares in size with 16 hectares of tillable land. This amount of land constitutes less than 0.3% of the total land area of Ukraine. By July 1992, the total number of private farms numbered 10,000.

The transformation of the collective farm into a joint-stock company or corporate farm is being widely considered, discussed, and planned in the Kiev region, but is just being considered in the Kharkov region.

Summary of Grain Production and Distribution

Ukraine has often been referred to as the breadbasket of the former Soviet Union because of its relative importance in agricultural production. Its land, resources, and climate provide great potential for agricultural production. The agricultural sector produces a wide variety of commodities, including grains, fruits, vegetables, meat, milk, eggs, potatoes, sugar beets, and various oilseeds. Historically, Ukraine was a net exporter of agricultural products to the other Soviet Union Republics. However, at the same time, Ukraine had a trade deficit in foreign agricultural trade. At the present time, Ukraine is not exporting grain to other republics of the former USSR.

Ukraine encompasses 60.4 million hectares, of which slightly more than 32 million are under crop production. Of the some 32 million hectares under cultivation, grain crops occupy nearly half of the area. Wheat production accounts for nearly half of the crop area in grains, and in latter years, more than one-half of the total grain production.

	Average 1986-90	1990	1991	Est. 1992
Crop Area (MHA)				
Total Grains	15.5	14.6	14.4	
Wheat	6.4	7.8	7.0	
Production (MMT)				
Total Grains	47.4	51.0	38.6	43-46
Wheat	23.5	30.4	23.0	24-26
Corn	8.0	4.7		
Barley	10.3	9.2		
Other	5.6	6.7		

State purchases of grain include wheat, corn, and barley. Historical procurement by the state is as follows.

Year	Total Production	State Procurement		Balance Held On-Farm	
	M mt	M mt	%	M mt	%
1981-85 Ave	37.7	13.4	(35.5)	24.3	(64.5)
1986	41.5	15.2	(36.6)	28.3	(63.4)
1987	48.0	18.1	(37.7)	29.9	(62.3)
1988	45.4	17.3	(35.7)	28.1	(64.3)
1989	51.2	17.7	(34.6)	33.4	(65.4)
1990	51.0	15.4	(30.2)	35.5	(69.8)
1991	38.6	11.3	(29.3)	27.2	(70.7)

Expressed Needs

A very large demand exists for all types of agricultural equipment and facilities, particularly pesticide sprayers, combines, grain storage facilities, and grain conditioning equipment. These needs were expressed many times to the Kansas State University (KSU) team. Although not directly expressed, there seems to be a need for feed mill equipment and facilities of the size and type applicable to the large corporate farms.

Interest was expressed by trading firms in small-scale production equipment which would be appropriate for use by individual farmers cultivating 20 to 70 hectares of land.

Potential Contacts

A brief list of potential contacts gathered by the KSU team is provided. For further information, it is suggested that inquiries be addressed to the Embassy of Ukraine, Washington, D.C. Two publications, "The Business Directory of the New Independent States" and "The Joint Venture Directory of the New Independent States" can provide additional information.

Embassy of Ukraine

Embassy of Ukraine
1828 L Street, N.W.
Suite 711

Washington, D.C. 20036

Telephone 202-296-6960

Contacts: Oleh Bilorus, Ambassador to the United States of America
Ihor Dunalsky, Economic Counselor

Embassy of the United State of America

Embassy of the United State of America
Yuria Kotsususbinshkoho, 10
4252053 Kiev
Ukraine

Telephone 244-7344

244-7349

FAX 244-7350

INMANSAT FAX 011-873-151-3424

Marketing

UKRAGOBUSINESS

Trehsvyatilsraya St, 4B

252002 Kiev

Ukraine

Telephone (44) 228-2641 or 228-7738

FAX (44) 228-8143

Telex 131186 UKRAB SU

Contact: Sergei V. Borodin, Director "Agropostavka" Company

Interested in commercial proposals and information on (1) 3,000 to 6,000 mt capacity storage facilities and related equipment, and (2) production equipment for 20 to 70 hectare private farms.

Joint Venture

Scientific and Production Association

NPO "Ukrstalkonstruktziya" 11V

Ur. K.Marx 252001 Kiev

Ukraine

Telephone (44) 229-7157 or 228-3029

Contact: Zirovij N. Feldman, Commercial and Technical Director

AGROMASH, Inc.

7 Veskresenskaya St.

252137 Kiev, 137

Ukraine

Telephone (44) 543-8051 or 543-9852

Contact: Vasily F. Shpak, Director
Victor N. Yakimchuk, Vice General Director
Igor I. Kibat, Vice Engineer

The above firms expressed interest in joint ventures in manufacturing of all types of agriculture and agribusiness equipment.

Ukraine Trade Fair

It has been reported that a trade exposition entitled American-Ukraine Trade Expo '92 will be held December 2 to 5, 1992, in Las Vegas, Nevada. It is further reported that approximately 140 Ukrainian firms will be in attendance. For additional information, contact Susan Bracken, telephone 703-631-6200 or AMUKE Group of Companies, San Francisco, telephone 415-661-7284. No other information could be obtained.

Agricultural Production and Processing Contacts

Kagazlyk District Agricultural Government Board
Kiev Region
Kagazlyk, 255420
Contact: Roman N. Kusch, Head of Board

"Winner" Collective (Joint-Stock) Farm
Kiev Region, Kagazlyk 255420
Kadomka
Ukraine
Telephone (273) 5-2285
(273) 3-2381
Contact: Petro K. Papizhenko, Head of Farm

"Illich" Collective Farm
Kiev Region, Kagazlyk 255420
Kodaki
Ukraine
Contact: Petro K. Petrankivskiy, Head of Farm

Oil Extraction Factory
Via Pricolotnoye, Velikoburlutskiy District
Kharkov Region
312540, Ukraine
Telephone (05752)5-310
Contact: Vladimir O. Scherban, General Director

"Mayak" Collective Farm
Balakleyevskij District
Via Savintsy
Kharkov Region
Ukraine
Telephone (057) 5-3331
(057) 3-1232
Contact: Valeriy N. Belokudria, Head of Farm

"Ukraina" Collective Farm
Balakleyevskij District
Via Borschivka
Kharkov Region
Ukraine
Contact: Nikolaj F. Goriajnov, Head of Farm

Other Contacts

The Ukrainian Academy of Agricultural Sciences
Suvorov St., 9
252010, Kiev-100
Ukraine
Telephone 290-4245
FAX 290-4255
Telex 13187 FAVN
Contact: Vladimir M. Krut, Vice-President

Kharkov Project Institute for Agriculture
Lenina St., 50
Kharkov - 72
310072 Ukraine
Telephone 232-2089
Contact: Oleg F. Nikonenko, Director
Valerij F. Gorbachov, Main Engineer

Institute on Production Grain Facilities (Institute Promzernoproekt)
Mezhigorskaya St., 83
Kiev - 80
252080 Ukraine
Telephone 417-3200
417-3028
Nikolaj G. Shtepa, Main Engineer
Vladimir I. Marion, Technologist

Other Sources of Information

The Business Directory of the New Independent States
The Joint Venture Directory of the New Independent States

Published by: Market Knowledge, Inc.
1100 West 31st Street, Suite 520
Oakbrook Terrace, Illinois
Telephone 708-969-1000

Support Information

The following information is provided as a guide to American firms interested in traveling to Ukraine.

Visa Information

Single Entry Visa

Requirements: 1 completed visa application form
\$30.00 company check or money order (no personal checks)

Additional Information:

The processing time is one week.

There is a rush option. For \$60.00 one can have the visa issued the same day.

Single entry visas are good for one month - unless stipulated by an official invitation for a longer stay.

To obtain a one-month single entry visa, no invitation form is required.

There are currently no restrictions on travel in Ukraine.

Hotel accommodations are no longer required for visa issuance.

Multiple Entry Visa

Requirements: One completed visa application form
One official invitation form either from the Ukrainian government or from a business firm in Ukraine.
\$120.00 company check or money order (no personal checks)

Additional Information:

The processing time is three weeks.

This type of visa is good for one year.

Hotel Information

Hotel Intourist
Gospitalnaya St., 12
252023 Kiev
Telephone (44) 220-4144

Hotel Dnipro
Khreshchatik St., 1/2
252023 Kiev
Telephone (44) 229-8387

Hotel Khreshchatik
Khreshchatik St., 14
252023 Kiev
Telephone (44) 229-7193

Interpreter Information

Pedagogical Institute of Foreign Languages
Chervonoarmijska St, 73
252150 Kiev, 150
Ukraine

Contact: Galik I. Artemchuk, Rector
Telephone (44) 227-3372
Secretary
Telephone (44) 227-2636

Money

The most commonly accepted money is U.S. dollars. The Intourist Hotel listed above will accepted credit cards (American Express, Visa, and Mastercard) with limits. Team was informed that the following bank would cash traveler's checks at a 5% cashing fee.

Agriculture Industrial Bank
Oktyabrskoi Pevolutsii, 12
Kiev

Contact: Mr. Sherbokov, 9:30AM to 2:30PM, Monday-Friday

SECTION III

RUSSIAN FEDERATION

The Russian Federation spans Europe and Asia. The large plains of European Russia are bounded on the east by the Ural mountains, which are generally accepted as the delineation line between Europe and Asia. The major agricultural production area of the European region lies between 45 and 60 degrees latitude. This latitude is equivalent to the production areas in the United States and Canada from North Dakota through the Manitoba Province. The population of the Russian Federation is estimated at 148.5 million.

Summary of Privatization

Governmental policy in the Russian Federation has decreed that privatization move at a very rapid pace. Privatization of much of Russia's industry is currently under way. A presidential decree has directed that plans for privatizing must be in place by November 1, 1992. It should be noted that this is only a decree and is not a law passed by the Parliament. However, certain sectors will not be privatized at this time, such as the State grain elevator system.

Privatization of farms in Russia appears to be moving at a very rapid pace. There is ample evidence of operating private farms, cooperative associations of private farms, and State or collective farms transformed into autonomous units as Joint-Stock Companies, independent of government control or subsidy. There is no set pattern from region to region pertaining to distribution, ownership, or leasing rights of the land. At this time, many types of arrangements have been made.

At the beginning of 1992, there were about 50,000 individual private farms registered in Russia with a land area of slightly over two million hectares. At this time, 135,000 individual private farms have been registered. The Russian Association of Farmer Enterprises and Agricultural Cooperative Societies (AKKOR) now includes 1,300 district organizations with 85,000 members. One of the primary functions of AKKOR is the administering of low-interest government loans to private farmers.

Summary of Grain Production and Distribution

Russia is a major producer of small grains (wheat, barley, rye, buckwheat, sugar beets, sunflower seed, and flax). Production of corn is primarily for green-chop and silage. Production of corn for grain is constrained by the relatively far northern location of the Russian growing areas.

The total land area of Russia is 1,708 million hectares of which approximately 120 million hectares (or 7% of total land area) is under cultivation. Of the 120 million hectares under cultivation, grain crops occupy 54% of the area. Wheat production accounts for 38% of the crop area in grains and slightly over 40% of total grain production.

The average annual total production of grain in Russia for 1986-91 was 104.2 million mt compared to 105.9 and 91.9 million mt for 1976-80 and 1981-85, respectively. The 1992 forecast of grain production is 93 to 98 million mt.

Wheat is the principal grain, comprising approximately 43% of the total grain production. Barley, rye, and oats comprise 24, 11, and 12%, respectively. Corn, millet, buckwheat, rice, and pulses make up the other 10% of grain production.

	Average 1986-90	1990	1991	Est. 1992
Crop Area (MHA)				
Total Grains	65.6	63.1	62.3	
Wheat	24.6	24.2	23.2	
Production (MMT)				
Total Grains	92.0	116.5	89.1	93-98
Wheat	38.7	49.6	38.0	
Rye	11.5	16.4		
Barley	23.3	27.2		
Oats	12.7	12.3		
Other	5.8	11.0		

State purchases of grain include wheat, barley, rye, and pulses. The State has purchased an average of one-third of total grain production from 1981 to 1991. Wheat procurement by the State represents 55% of total State grain procurement for the period 1981 to 1991.

Year	Total Production	State Procurement		Balance Held On-Farm	
	M mt	M mt	%	M mt	%
1981-85 Ave	91.9	35.0	(38.1)	56.9	(61.9)
1986	107.4	42.1	(39.2)	65.3	(60.8)
1987	98.5	35.1	(35.6)	63.4	(64.4)
1988	93.8	29.2	(31.1)	64.6	(68.9)
1989	104.8	31.2	(29.8)	73.6	(70.2)
1990	116.5	34.0	(29.2)	82.5	(70.8)
1991	89.1	22.5	(25.3)	66.6	(74.7)
1992 target		29			

Expressed Needs

A large demand exists for the full cycle of grain production; from new varieties and hybrid seeds, to pesticides, fertilizers, harvesting machinery, grain drying/handling/storage equipment, to processing equipment for flour and animal feeds. Because of the increasing numbers of individual private farmers, there is a demand for equipment that is applicable to the size of the individual operation.

Potential Contacts

A brief list of potential contacts gathered by the KSU team is provided. For further information, it is suggested that inquiries be addressed to the Embassy of the Russian Federation, Washington, D.C. The publications, "The Business Directory of the New Independent States" and "The Joint Venture Directory of the New Independent States," can be consulted for additional information.

Embassy of the Russian Federation

Embassy of the Russian Federation
1125 16th Street, N.W.
Washington, D.C. 20036
Telephone 202-628-7551
FAX 202-397-5028
Contacts: Logvin Roverchuk, Agricultural Attache
Robert Ruzanov, Commercial Attache

Joint Ventures

Cooperative-State Objedinenie for Construction (Rosagropromstroy)
16, Krasin Lane
Moscow, 123056, Russia
Telephone 255-0525
Contact: Victor M. Vidmanov, President

Association for Construction in the Russian Non-Chernozemia Zone
(Nechernozemagropromstroy)
5/1, Tolstoy St.
Moscow, 119862, Russia
Telephone 245-0595
FAX 246-6779
Contact: Leonid Y. Ivanov, Chairman

Inter-Republican Association of Enterprises in Building Units for Grain Storage
and Processing (STREL)
2 bld. 13, Barklay St.
Moscow, 123056, Russia
Telephone 145-1483
145-1845
FAX 145-5314
Contact: Petr A. Soldatenkov, Vice-President

AgroProduct

1 Institutsky pr., 1
Moscow, 109428, Russia
Telephone 171-3727
371-4681
FAX 371-4482
Contact: Vjacheslav I. Chernov Ivanov

FREGAT Production Association
60/62 Chernishevski St.
Saratov, 410004, Russia
Telephone 25-1608
 44-7293
FAX 25-3666
Telex 412663 REYE
Contact: Yuri S. Shaposhnikov, General Director

The above firms expressed interest in joint ventures in manufacturing of all types of agriculture and agribusiness equipment.

Other Contacts

Russian Association of Farmers Enterprises and Agricultural Cooperative Societies (AKKOR)
3, Oriykov pereulok.
Moscow, 107802, Russia
Telephone 204-4027
 204-4147
FAX 208-5824
Contact: Vladimir F. Bashmachnikov, President

Scientific and Production Amalgamation "Zernoproduct"
Dmitrovskoye Chaussee, 11
Moscow, 127434, Russia
Telephone 216-3300
 216-0940
Contact: G.S. Zelinsky, General Director
 Leonid A. Tesler, Chief International Economic and Scientific Relations Department

Market Research Institute
Pudovkin St., 4
Moscow, 119285, Russia
Telephone 15-0261
FAX 143-0271
Telex 64-411380
Contact: Vsevolod O. Volkov, Director

Saratov Association of Agricultural Cooperative Societies and Farms "Vozrojdenie"
(Regional AKKOR Association)
Universitetskaja St., 45/51
Saratov, 410071, Russia
Telephone 24-6317
FAX 24-6317
Contact: Anatolij N. Musikhin, President
 Victor S. Kuzmin, Director

Agricultural Institute of SouthEast Russia
Scientific-Production Corporation "Elita Povolgja"
Tulajkov, 7
Saratov, 410020, Russia
Telephone 64-0565
Contact: Vladimir F. Unhgenfuet, General Director
Anatoly I. Shabaea, Deputy General Director

Agricultural Department of Voronezh Regional Administration
Lenin Square, 12
Voronezh City, 394000, Russia
Telephone 55-2864
55-6723
Contact: Trundv Vladimir Ivanovich, Director
Gribanov Nikolia Alekseyevich, Deputy Director

Voronezh Association of Agricultural Cooperative Societies and Farmers "Niva"
(Regional AKKOR Association)
Plekhanov St., 53
Voronezh City, 394000, Russian Federation
Telephone 52-5508
52-4977
Contact: Sulhgenko Nikolai Anatolievich

Other Sources of Information

The Business Directory of the New Independent States
The Joint Venture Directory of the New Independent States

Published by: Market Knowledge, Inc.
1100 West 31st Street, Suite 520
Oakbrook Terrace, Illinois
Telephone 708-969-1000

Support Information

The following information is provided as a guide to American firms interested in traveling to Ukraine.

Embassy of the United States of America

Embassy of the United States of America
Ulitsa Chaykovskogo 19/21/23
Moscow, Russia
Telephone: 255-9957
255-9270
FAX 255-9965

Visa Information

Requirements: One visa application form and copy of itinerary.
Copy of passport: first two pages showing photo, signature and vital statistics. Do not send passport.
Three passport style photos.
Invitation from Russia. Must be official letter of invitation stating length of stay, purpose of trip, etc.

Additional Information:

Regular service - \$55.00 plus return mail (more than three weeks for processing).

Rush service - \$80.00 plus return mail (more than five days processing).

Urgent service - \$125.00 plus return mail (within five days processing).

Next day service - \$175.00 plus return mail.

Same day service - \$225.00 plus return mail (only if invitation is sponsored by Russian government).

Return mail cost - \$15.50 via Federal Express or \$4.75 via certified mail.

Guide to Hotels, Interpreters, and Other Services

Moscow Business Telephone Guide

A monthly publication

CMS New York Inc.

1925 Clove Road

Staten Island, New York 10304

Telephone 718-448-9354

FAX 718-448-9355

SECTION IV

CONSTRAINTS

American business firms should be aware that numerous constraints exist in both the sale of products to Ukraine or Russia, and in joint venture investments within Ukraine or Russia.

The major constraint to the sale of products is the lack of "hard" currency needed for import transactions. As a result, a firm must be prepared to conduct barter trade, whenever it is so required.

Investment in equipment, facilities, and credit through joint ventures should be considered as a moderate- to high-risk operation. The best summary of risks is presented in "Obstacles to Trade and Investment in the New Republics of the Former Soviet Union, by the International Trade Administration, U.S. Department of Commerce, March, 1992. This report is based on surveys of nearly 100 American companies who have conducted business operations in Republics of the former Soviet Union. A copy of this publication may be obtained from the U.S. Department of Commerce.

In April 1992, Ukraine passed legislation concerning foreign investment. A copy of the "Law of Ukraine for Foreign Investment" is appended as Annex I. A copy of the Russian Soviet Federative Socialist Republic law on foreign investment is appended as Annex II. It cannot be determined whether this law is still valid.

ANNEX I

18.

LAW OF UKRAINE
"ON FOREIGN INVESTMENTS"

The Law of Ukraine "On Foreign Investments" is based on the goals, principles and provisions of the laws of the Ukrainian SSR "On Foreign Economic Activity" and "On Investment Activity", and stipulates the terms and conditions for foreign investment within the territory of Ukraine.

SECTION I. GENERAL PROVISIONS

Article 1. Definition of Terms

In this Law the following terms are used with the meanings defined below:

Foreign investors: legal persons established in accordance with laws other than those of Ukraine; physical persons who do not reside permanently on the territory of Ukraine; foreign states, international governmental and non-governmental organizations; other foreign entities engaged in business activity which are defined as such according to Ukrainian legislation.

Foreign investments: all forms of value that have been directly invested in enterprises and other forms of commercial activity by foreign investors, in accordance with Article 3 of this Law, with the aim of gaining profit (income) or providing social benefit.

Enterprise with foreign investments: any legal form of enterprise established in compliance with Ukrainian law, where a foreign investor controls, on average, no less than 20 percent of the [declared authorized capital] or a share valued at no less than U.S.\$100,000, during a given calendar year.

In this regard, with reference to newly formed enterprises this last criterion is based on the sum used in the formation of [initial capital] in accordance with Ukrainian laws.

Article 2. Applicability of this Law

This Law applies exclusively to foreign investors and enterprises with foreign investment, in which the share of foreign investment amounts to no less than 20 percent of the [declared authorized capital] or at least U.S.\$100,000.

The applicability of this Law does not extend to foreign investments effected in Soviet karbovantsi (rubles), payment documents denominated in karbovantsi, commercial instruments denominated in karbovantsi which originate from countries other

than Ukraine, as well as to foreign investments in the form of commodities that originated in countries on whose territory the currency in circulation is the Soviet karbovants, with the exception of goods that are highly liquid assets on world markets. The regime of foreign investment set forth in this section is regulated by the general legislation of Ukraine on investment activities, unless otherwise stipulated by international agreements to which Ukraine is a party.

Article 3. Types of Foreign Investments

Foreign investors are entitled to carry out investments in Ukraine in the form of:

a) foreign hard currency, other convertible instruments; hard currency in circulation on the territory of Ukraine;

b) any form of movable or immovable property (land, buildings, structures, equipment and machinery, and other material resources) and any property rights assigned thereto;

c) stocks, bonds and other commercial instruments, or any other forms of participation in an enterprise;

d) monetary claims and the right to claim against the fulfillment of contractual obligations that have value;

e) any form of intellectual property which has value, including author's rights, rights to inventions, trademark rights (product and service trademarks), company names, industrial models, know-how, and others;

f) the right to carry out commercial activities, including the right of exploration, development, mining, or exploitation of natural resources, as granted under law or by agreement;

g) paid services;

h) other forms of investment not prohibited by the laws of Ukraine.

Foreign investment of any kind may not be prohibited or restricted except in accordance with clear and specific provisions of the laws of Ukraine.

Article 4. Methods of Realizing Foreign Investments

Foreign investors have the right to realize all forms of investment as defined in Article 3 of this Law, in the following ways:

Article 6. Legislation Concerning Investment Activities and Commercial Activities of Foreign Investors on the Territory of Ukraine

Relations (activities) stemming from foreign investments in Ukraine are regulated by this Law and other legislative acts as well as international agreements to which Ukraine is a party, as in effect on the territory of Ukraine.

If international agreements in effect in Ukraine establish rights other than those set forth in the legislative acts of Ukraine, then the provisions of the international agreements shall govern.

Article 7. Government Policy in the Sphere of Foreign Investments

Government policy in the sphere of foreign investment and state programs to encourage foreign investment shall be developed by the Cabinet of Ministers of Ukraine jointly with the National Bank of Ukraine, and shall be approved by the Supreme Council of Ukraine.

SECTION II. GOVERNMENT GUARANTEES FOR THE PROTECTION OF FOREIGN INVESTMENTS

Article 8. Legal Status of Foreign Investments

With the exception of those cases envisaged by this Law and other laws and international agreements binding on Ukraine, a national regime for investments and other commercial activities exists in Ukraine with regard to foreign investment and the forms of its implementation on Ukrainian territory.

Under current government programs designed to attract foreign investment, additional privileges may be extended to foreign investors in key sectors of the economic and social spheres.

The laws of Ukraine may, for reasons of national security, designate territories wherein the activities of foreign investors or enterprises with foreign investment may be restricted or prohibited.

Article 9. Guarantees Against Changes in Legislation

In the event that subsequent legislation concerning foreign investment in Ukraine changes the protection extended to foreign investment under this Law, then, if required by the foreign investor, the legislation in effect at the time of registration of the foreign investment shall continue to apply to the investment for a period of 10 (ten) years...

a) ownership shares in enterprises that have been established jointly with Ukrainian legal and physical persons, or the acquisition of shares in existing enterprises;

b) the establishment of enterprises that are wholly owned by foreign investors, affiliates, or other entities owned by foreign legal persons, or the acquisition of the entire ownership of existing enterprises;

c) any acquisition not expressly prohibited by the laws of Ukraine, of movable or immovable property, including parcels of land, buildings, apartments, facilities, equipment and machinery, means of transport, and other objects of ownership with the intent of possessing property or proprietary assets directly, or in the form of stocks, bonds and other commercial instruments;

d) the acquisition, independently or jointly with Ukrainian legal or physical persons, of the rights to use land or concessions for the exploitation of natural resources on the territory of Ukraine;

e) the acquisition of other property rights;

f) other means of implementing investments and, in particular, those based on agreements with subjects of commercial activity in Ukraine, that are not clearly and expressly prohibited by the existing laws of Ukraine.

Article 5. Valuation of Foreign Investments

If requested by a foreign investor, foreign investments, including contributions to the authorized capital of enterprises with foreign investments, shall be valued in freely convertible foreign currency or in the currency in circulation on the territory of Ukraine.

Foreign investments, including contributions to the authorized capital of enterprises with foreign investments, shall be assessed, by mutual agreement of the parties (participants) involved, on the basis of current world market prices.

Foreign currency shall be converted into the currency in circulation on the territory of Ukraine with regard to foreign investments, including contributions to the authorized capital of enterprises with foreign investments, in accordance with a rate agreed upon by all parties (participants), but shall not be less than the current exchange rate for that foreign currency on the territory of Ukraine, as determined by the National Bank of Ukraine.

Article 10. Guarantees Against Expropriation and Unlawful Acts of Government Bodies and Officials

Foreign investments in Ukraine are not subject to nationalization. Government bodies cannot expropriate foreign investments, with the exception of emergency measures in the event of natural disasters, accidents, epidemics, or epizooty. A specific instance of expropriation may be enforced on the basis of a decision taken by bodies authorized by the Cabinet of Ministers of Ukraine.

A decision to expropriate a foreign investment and agreements regarding compensation may be challenged in a legal proceeding, as provided in Article 49 of this Law.

Article 11. Compensation and Damages for Losses Incurred by Foreign Investors

Foreign investors have the right to compensation for their losses, including lost opportunities (benefits) and non-material (intangible) damages, incurred as a result of actions or omissions on the part of governing bodies of Ukraine or government officials that contradict legislation effective in Ukraine, and also as a result of the improper (negligent) performance on the part of such governing bodies or officials of obligations and duties required by law, with respect to foreign investors or enterprises with foreign investment.

All expenses and losses incurred by foreign investors as a consequence of the events described in Article 10 and the first paragraph of Article 11 of this Law, shall be indemnified at current market rates and/or established values certified by independent auditors.

Compensation paid to foreign investors shall be prompt, adequate and effective, and shall be calculated as of the moment of the actual implementation of the decision to expropriate.

Compensation shall be paid without delay in the currency in which the investment was made or in any other currency acceptable to the investor in accordance with the effective legislation of Ukraine on foreign currency. Beginning with the emergence of the right to compensation and up until the moment that compensation is paid, interest rates for the entire amount to be paid as compensation shall be calculated in accordance with current interest rates effective for current deposits on the credit market of Ukraine.

Compensation of losses incurred by foreign investors shall be made at the expense of the state budget of Ukraine or from other sources pursuant to procedures stipulated by the Cabinet of Ministers of Ukraine.

Article 12. Guarantees Against Termination of Investment Activity

In the event of the suspension or termination of investment activity, a foreign investor shall have the right within six months from the date of the termination of the investment to recoup his investment together with proceeds therefrom in the form of money or commodities based on actual market value as of the moment of the termination of the investment activity, unless otherwise stipulated by the legislation of Ukraine or agreements between the participants (parties).

Article 13. Guarantees for Remittance of Revenues, Profits and Other Sums in Connection with Foreign Investments

Upon payment of taxes and other mandatory duties, foreign investors are guaranteed the right to the unimpeded and prompt remittance abroad (repatriation) of their revenues, profits, and other funds in foreign convertible currency obtained legally in connection with their investments.

The procedures for the remittance abroad of revenues, profits and other funds obtained from foreign investments shall be specified by the National Bank of Ukraine.

Article 14. Guarantees of Disposal of Revenues, Profits, and Other Assets Obtained in Connection with Foreign Investments on the Territory of Ukraine

Revenues, profits or other funds obtained by a foreign investor in Ukraine in the currency circulating on its territory or in a foreign currency as a result of investment activities may be reinvested in Ukraine. The procedure for reinvestment of such revenues are set forth in the Law of Ukraine "On the Investment Activity" and in this Law.

In order to save (preserve) revenues, profits and other funds denominated in the currency of Ukraine, foreign investors can open deposit and settlement accounts in Ukrainian banks pursuant to the legislation on banks and banking activities and currency legislation.

Foreign investors have the right to apply funds denominated in the currency of Ukraine in these deposit accounts to acquire foreign currency on the domestic currency market pursuant to Ukrainian legislation or to purchase goods on the domestic market of Ukraine for their export abroad without license.

Article 15 of this Law within 21 days, from the submission by a foreign investor of the information mentioned in Article 15.

Article 17. Denial of Registration of Foreign Investments

Registration of a foreign investment may be denied only if the foreign investor violates the investment procedure established by the legislation of Ukraine or if the submitted information fails to comply with registration requirements. A denial of registration shall be documented in written form, shall specify the reasons for denial, and may be challenged in a court proceeding.

Article 18. Period of Validity of a Registration Certificate

An investment certificate shall be valid during the period for which it is issued. This term must correspond to the period of investment declared by the foreign investor upon registration and may be extended at the request of the investor.

Article 19. Recording and Statistical Information on Foreign Investments

Customs and banking institutions shall keep records related to the actual implementation of (operations) foreign investments. Foreign investors shall submit monthly consolidated reports on operations to the Ministry of Finance, Ministry of Statistics, Ministry of Foreign Economic Relations of Ukraine and to the National Bank of Ukraine.

SECTION IV. ENTERPRISES WITH FOREIGN INVESTMENTS

Article 20. Organizational and Juridical Forms of Enterprises with Foreign Investments

Enterprises with foreign investments on the territory of Ukraine shall be organized and shall act within the organizational and legal forms envisaged by the legislation of Ukraine.

Article 21. Procedure for Establishing Enterprises with Foreign Investments

An enterprise with foreign investments can be organized by forming a new enterprise, as a result of the acquisition by a foreign investor of a portion (shares, stocks) of an enterprise formed earlier without foreign investments or by purchasing an entire enterprise.

SECTION III. GOVERNMENT REGISTRATION AND CONTROL OF FOREIGN INVESTMENTS

Article 15. Procedure for Government Registration of Foreign Investments

The Ministry of Finance of Ukraine shall register foreign investments prior to, during or after the actual implementation of the investments upon the submission in duplicate by the foreign investor of an application setting forth the general scope, form, implementation period, investment objective, legal (company) name, legal status and state affiliation (if any) of the foreign investor and his representative in Ukraine to the Ministry of Finance in accordance with the format established by the Ministry. The information specified in this Article may be submitted by the foreign investor in person, through an official representative of the foreign investor, or by mail.

In the event a foreign investor requests additional preferences under the government program for the encouragement of investments, he or she shall submit additional information to the Ministry of Finance of Ukraine confirming compliance with the criteria set forth by the government program.

Information or documents, other than those specified by this Article, may not be required of the investor during the registration.

The duplicate copy of the information report on foreign investments submitted (sent) to the Ministry of Finance of Ukraine is marked by a special stamp during registration and is returned to the foreign investor to attest the fact of the government registration of his or her investment. If a foreign investor is granted preferences in connection with the government program to promote foreign investment, he or she is provided with an investment certificate of a standard format that shall serve as the basis for obtaining such preferences.

The investment certificate shall be issued upon the payment of a registration fee which shall be determined by the Ministry of Finance of Ukraine but which shall not exceed the actual costs (disbursements) incurred by the government body in connection with the registration of the investment.

Unregistered foreign investments do not entitle the investor to the privileges provided by this Law.

Article 16. Foreign Investor Registration Terms

The Ministry of Finance of Ukraine shall register foreign investments or disclose the reasons for the denial of registration within 3 working days, and in cases specified by paragraph 2 of

Foreign investment enterprises are created pursuant to procedures set forth in legislation effective on Ukrainian territory.

The acquisition by a foreign investor of a portion (shares, stocks) of an enterprise formed originally without foreign investment, as well as the purchase of an entire enterprise shall be effected in accordance with legislation in effect on the territory of Ukraine taking into account the supplemental provisions set forth in this Law.

Article 22. Organizational Documents of Newly Formed Foreign Investment Enterprises

The organizational documents of newly formed foreign investment enterprises shall contain the information required pursuant to the legislation in force in Ukraine for the legal form of the enterprise as well as information on the country of origin of the partners (founders) of the enterprise.

Article 23. State Registration of Foreign Investment Enterprises

Foreign investment enterprises shall be registered pursuant to procedures in effect under legislation in force in Ukraine.

Article 24. Nature of Activity

An enterprise with foreign investments may engage in any kind of activity corresponding to the goals identified in its statute (charter), other than those activities prohibited by legislation in force in Ukraine.

In order to conduct insurance and brokerage activities related to the trading of commercial paper (securities), an enterprise with foreign investment shall obtain a license of the Ministry of Finance of Ukraine. In order to conduct banking operations, the enterprise shall receive a license from the National Bank of Ukraine.

Article 25. Subsidiaries, Affiliates and Representative Offices of Enterprises with Foreign Investments

An enterprise with foreign investments may create subsidiaries with the rights of a legal entity as well as affiliates and representative offices in Ukraine and abroad in keeping with the requirements set forth by the legislation of Ukraine and of relevant foreign countries.

Preferences and guarantees stipulated by this Law for enterprises

with foreign investments extend to subsidiaries of the enterprise, provided that at least 51 percent of the authorized capital is owned by the foreign investment enterprise that acted as the founder (incorporator) of the subsidiary in question.

Article 26. Conditions for Distribution of Products and Provision of Services in the Ukrainian Market

An enterprise with foreign investment may establish the terms of the distribution of products (works and services) on the Ukrainian market on a contractual basis including the prices of products (services) as well as the terms of delivery, labor and servicing within the market.

The settlement (accounting) of foreign convertible currency used in these transactions shall be determined pursuant to foreign currency legislation in effect in Ukraine.

Article 27. Associations and Unions of Enterprises with Foreign Investments

Enterprises with foreign investments may form voluntary partnerships, unions, concerns, inter-branch, regional and other associations that do not conflict with the anti-monopoly legislation in effect in Ukraine.

Article 28. Customs Duties

Property imported to Ukraine as part of the contribution of the foreign investor to the authorized capital of an enterprise with foreign investments is exempt from customs duties and import tax for the periods established by the Law of Ukraine "On Business Associations".

Property imported to Ukraine for investment on the basis of business agreements (contracts) is exempt from customs duties and import taxes for the periods established by the investment agreements (contracts).

Finished products, raw materials, semi-manufactured goods, components, spares parts and accessories imported to Ukraine for the use (needs) of enterprises with foreign investments are exempt from customs duties and import taxes.

Property imported to Ukraine by foreign employees of enterprises with foreign investments for their individual needs is exempt from customs duties and import taxes.

investments.

With the exception of enterprises created in the sphere of wholesale and retail trade and brokerage activity, enterprises with foreign investments and participation of Ukrainian capital shall be exempt from income taxation for 5 years from the declaration of the first income, and thereafter shall pay taxes at the rate of 50 percent of the tax rates stipulated by the legislation of Ukraine.

Newly created enterprises with foreign investments and participation of Ukrainian capital operating in the sphere of wholesale and retail trade are exempted from income taxation for three years, and the enterprises operating in brokerage activity shall be exempt for two years from the declaration of the first income, and thereafter shall pay taxes at the rate of 70 percent of the tax rates established by the legislation of Ukraine.

Enterprises with foreign investments and participation of Ukrainian capital that were created prior to the adoption of this Law as well as enterprises with participation of Ukrainian capital that have become enterprises with foreign investments at some point subsequent to their organization (incorporation) are exempt from income tax in accordance with paragraphs 3 and 4 of this Article, including the period of time that elapsed since the declaration of the first income by these enterprises relative to the moment of the adoption of this Law or the transformation of the enterprise into an enterprise with foreign investments.

Foreign investment enterprises whose capital is owned entirely by foreign investors are entitled to reduce their taxable income to the amount of actually realized investments converted to the currency effective on the territory of Ukraine applying the exchange rate used for the valuation of foreign investments in accordance with Article 5 of this Law. In the event the amount of the actually realized (performed) foreign investments exceeds the aggregate income of an enterprise with foreign investments for one fiscal year, the aggregate income from future years subject to taxation shall be decreased by the amount of the said excess.

The aggregate taxable income of an enterprise with foreign investments shall be reduced by the amount of funds that are reinvested within the territory of Ukraine.

Products, labor and services of an enterprise with foreign investments and participation of Ukrainian capital are exempted from value-added taxes for a period of five years from the moment of the official registration of the enterprise.

For enterprises with foreign investments in priority branches of the national economy included in the government programs for the promotion of foreign investments or covered by legislation on special (free) economic zones, additional tax privileges may be established.

Article 29. Export and Import of Products, Labor and Services

Enterprises with foreign investments may export products, labor and services and import products, labor and services for their own needs without a license, except in those cases envisaged by legislative acts and international agreements effective on the territory of Ukraine. The procedures for classifying the products, labor and services to be exported as proprietary production are based on commodity origin rules forming part of the customs legislation of Ukraine. The determination of which imported products, labor and services are intended exclusively for the use of an enterprise shall be based on the organizational documents of the enterprise.

The proceeds from exports of the products, labor and services of the enterprises which are denominated in foreign convertible currency shall remain at the complete disposal of such enterprises. The products, labor and services of third parties shall be exported by enterprises with foreign investments in accordance with general principles.

Article 30. Currency Regulation

All expenses of enterprises with foreign investments related to the use of foreign convertible currency in connection with the performance of various kinds of business activity in Ukraine, including the remittance abroad of a share of the profit belonging to the foreign investor, shall be borne by the foreign investment enterprise from the foreign currency proceeds derived from such activity, as well as other authorized sources of foreign currency pursuant to legislation. Foreign currency transactions shall be effected by enterprises with foreign investments pursuant to the procedures in effect under legislation in force in Ukraine.

Article 31. Property and Risk Insurance

Property and risk insurance of enterprises with foreign investments shall be secured at the discretion of the enterprise unless otherwise provided by the legislation in effect in Ukraine.

Article 32. Taxation

Enterprises with foreign investment shall be subject to taxation according to the legislation in effect in Ukraine, with the exceptions stipulated in this Law.

If the legislation of Ukraine imposes new taxes that did not exist at the time of the adoption of this Law, existing enterprises with foreign investments shall receive tax exemptions for the periods envisaged in this Law for newly created enterprises with foreign

SECTION V. ACQUISITION OF PROPERTY AND INDIVIDUAL PROPERTY RIGHTS BY FOREIGN INVESTORS

Article 39. Acquisition of Stocks, Shares and other Securities of an Enterprise by Foreign Investors

Foreign investors have the right to acquire stocks, shares and other securities of enterprises located on the territory of Ukraine. Foreign investors may use Ukrainian currency obtained as revenues (profit) from their operations in Ukraine and foreign currency to purchase stocks and shares of enterprises.

The currency exchange rate in effect pursuant to the Ukrainian currency legislation shall apply to the acquisition of securities described in this Article.

The acquisition of shares and other securities by foreign investors at stock exchanges shall be regulated by the legislative acts of Ukraine on securities and stock exchanges.

Article 40. Acquisition of State Securities by Foreign Investors

Foreign investors may acquire state securities in compliance with the Law of Ukraine "On Securities and Stock Exchange"

Article 41. Participation of Foreign Investors in Privatization

Foreign investors may take part in the privatization of state and municipal enterprises as well as the objects of incomplete capital construction on the territory of Ukraine. The terms of their participation in auctions and public tenders (competitive bidding) in the privatization of state-owned and municipal enterprises shall be determined by legislation in effect in Ukraine.

For purposes of participating in privatization, foreign investors may use the currency in effect on Ukrainian territory (Ukrainian currency) which they have on deposit from revenues (profits) derived from sources on the territory of Ukraine.

Article 42. Property Rights to Land and Other Natural Resources

The granting of property rights to land and other natural resources to foreign investors is regulated by the Land Code of Ukraine and other legislative acts effective on the territory of Ukraine.

that will regulate labor relations shall be valid provided that the regime (rights) in question bears a close relationship to labor relations and does not undermine (reduce) the rights of employees in comparison to those envisaged by the legislation of Ukraine. Foreign law shall not apply to those issues covered by imperative norms of the labor law of Ukraine.

The activities of professional associations at enterprises with foreign investments shall be regulated by legislation in effect on the territory of Ukraine.

Article 37. Social Insurance and Security for Employees of Enterprises with Foreign Investments

Social insurance of employees of enterprises with foreign investments as well as their social security (other than the pensions of foreign nationals) are regulated by legislation in effect in Ukraine.

Pension payments to foreign employees of an enterprise with foreign investments shall be remitted to the appropriate funds in countries of their permanent residence in the currency and on terms and conditions valid in these countries.

Enterprises with foreign investments shall make payments to the state social insurance fund on behalf of Ukrainian and foreign employees as well as payments to secure pensions for Ukrainian workers in accordance with the rates established for enterprises and organizations in Ukraine.

Article 38. Termination of the Activity of Enterprises with Foreign Investments

The activity of enterprises with foreign investments shall be suspended or terminated in accordance with the procedures set forth by legislation in effect in Ukraine according to the relevant organizational and legal form of enterprise in question, and only in the event of:

- a) decision made by the owners in keeping with the organizational (statutory) documents of the enterprise;
- b) the expiration of the term of the agreement establishing the enterprise;
- c) a relevant court decision.

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When remitting (repatriating) a portion of profits belonging to a foreign investor from the activity of enterprises with foreign investments, the foreign investment enterprise shall pay a tax equal to 15 percent of the sum remitted or repatriated.

Reviews of the commercial and financial activities of enterprises with foreign investments, including reviews for taxation purposes, shall be conducted only by officially registered auditor organizations of Ukraine.

Article 33. Accounting and Reporting

The accounting of and preparation of financial reports concerning enterprises with foreign investments shall be conducted in accordance with the principles (rules) set forth by the legislation of Ukraine.

Provided they comply with the requirements of the first paragraph of this Article, enterprises with foreign investments may also calculate and report financial information based on the accounting rules effective in the country of the foreign investor.

In preparing the financial statements of an enterprise with foreign investments calculations in foreign currency shall be converted into the currency circulating in Ukraine based on the exchange rate determined according to Article 5 of this Law and the currency legislation of Ukraine.

Article 34. Securing Obligations

The property of an enterprise with foreign investments may be used to secure obligations of all kinds, as well as to attract credit. Property rights to buildings, structures and equipment as well as other property rights may also be used to secure the undertaken obligations.

The mortgaged property or property rights may be sold by the security holder for convertible currency in circulation on the territory of Ukraine or for foreign convertible currency at contractual prices, at auctions or otherwise to legal and physical entities of Ukraine and, if envisaged by the effective legislation of Ukraine, to foreign legal and physical persons or to associations of the latter.

Article 35. Intellectual property rights

The intellectual property rights of an enterprise with foreign investments shall be protected and realized in accordance with the legislation in effect on the territory of Ukraine.

Employees of enterprises with foreign investments have the right to enter into agreements with their employers specifying their rights to intellectual property that emerges from their work product pursuant to assignments confirmed by the documentation of an enterprise.

Enterprises with foreign investments are entitled to use rights to the objects of intellectual property specified in the second paragraph of this Article only after signing relevant agreements with the employees who are the authors of inventions, prototypes, trademarks and other objects of intellectual property.

Patents and other legal titles for the objects of intellectual property (inventions, industrial prototypes, trademarks, etc.) are issued to an enterprise after the conclusion of an agreement between employee and employer. In addition to the concession (abandonment) on the part of the employee to the right to obtain a patent or some other legal title to the work product in favor of the enterprise, the agreement shall specify the obligations of the enterprise to create appropriate material, work (production), and social conditions for the employee. In the event an agreement between the employee and the enterprise with foreign investments was not concluded, the patent or other legal title is issued to the author of an invention, industrial prototype, trademark, etc. The enterprise has the right to use these subject to terms specified by the contract with the owner of the legal title.

An enterprise with foreign investments shall make its own independent determination as to the patenting (registration) abroad of inventions, industrial prototypes, and other objects of intellectual property that belong to it.

Article 36. Labor Relations

All labor relations with hired workers, including admission and discharge, work routine and leisure time, salary, guarantees and compensation at enterprises with foreign investments, are regulated by the collective contract and individual labor agreements. If agreed between the parties, the employer may sign a labor agreement with an employee.

The terms of the collective contract and labor agreements may not undermine (worsen) the position of the hired workers of these enterprises in comparison to conditions stipulated by labor legislation in effect in Ukraine.

Labor relations with employees who have no permanent place of residence in Ukraine are regulated by the legislation of Ukraine if in negotiating the terms of the labor agreement (contract) or in a subsequent agreement the parties have not chosen the legislation of another country to regulate individual elements of labor relations. The selection by the contracting parties of a legal regime (rights)

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Article 43. Leasing Property

Property may be leased by foreign investors subject to lease agreements in compliance with the legislation in effect on the territory of Ukraine.

Property owned by state or municipal authorities whose book value exceeds the equivalent of U.S. \$1,000,000 may be leased with the permission of the relevant governmental entity authorized to operate the property.

Article 44. Concession Agreements

Rights to mine and utilize renewable and non-renewable natural resources as well as to conduct business activities related to the operation of objects owned by the state and not transferred to enterprises, institutions or organizations for complete disposal or control shall be granted to foreign investors on the basis of concession agreements that are signed by the Cabinet of Ministers of Ukraine or by another state organ authorized to do so in keeping with the legislation of Ukraine on concessions with foreign investors.

The term of the concession agreement shall depend on the character and conditions of the concession but may not cover a period in excess of 99 years.

Unilateral changes to the terms of concession agreements shall not be permitted unless specifically authorized by the agreement.

Concession agreements may contain exceptions to the legislation effective in Ukraine. However, in those cases the agreements must be approved by the Parliament of Ukraine.

SECTION VI. FOREIGN INVESTMENTS ON THE BASIS OF AGREEMENTS (CONTRACTS) ON PRODUCTION COOPERATION, JOINT PRODUCTION AND OTHER FORMS OF JOINT ACTIVITY

Article 45. Types of Agreements (Contracts)

The provision of Section VI of this Law shall extend to agreements (contracts) on production cooperation, joint production and other kinds of joint activity that do not involve the creation of a separate legal entity if these agreements (contracts) provide for the implementation of foreign investments on the territory of Ukraine in the forms set forth in Article 3 of this Law.

Article 46. Legal Basis of Agreements (Contracts)

The provisions of the law of Ukraine "On Foreign Economic Activity" apply to the agreements (contracts) described in Article 45 of this Law.

Article 47. Regulation of Business Activity in Compliance with the Agreements (Contracts)

Unless otherwise specified by the legislation of Ukraine or the agreement between the parties the relevant provisions of Section IV of this Law shall apply to the business activities regulated by agreements (contracts) described in Article 45 of the present Law.

The preferences set forth in paragraphs 3 and 4 of Article 32 of this Law shall not apply for the benefit of the business activity regulated by agreements (contracts) described in Article 45 of this Law.

Proceeds from the business activities described in this Article shall be taxed at a rate of 50 percent of the rates established by the legislation of Ukraine.

Parties to the agreements (contracts) described in Article 45 of this Law shall implement a separate accounting and reporting system for operations related to these agreements (contracts) and are entitled to open joint deposit accounts with banking institutions in Ukraine to perform settlements related to the performance of such agreements (contracts).

SECTION VII. FOREIGN INVESTMENTS IN SPECIAL (FREE) ECONOMIC ZONES

Article 48. Regulation of Foreign Investments in Special (Free) Economic Zones

Foreign investments in special (free) economic zones are regulated by the special rules established by the Ukrainian legislation on special (free) economic zones.

The legal regimes created in special (free) economic zones in terms of foreign investments shall not involve any investment conditions and conditions for economic activity that are less favorable than those stipulated by this Law.

SECTION VIII. DISPUTE RESOLUTION

Article 49. Procedure for the Settlement of Disputes Involving Foreign Investors

Disputes between foreign investors and the government on issues of state regulation of foreign investments shall be examined by the courts of Ukraine if not otherwise specified by international agreements on the protection of foreign investments to which Ukraine is a party.

All other disputes not covered by the first paragraph of this Article shall be examined by the courts and/or arbitration tribunals of Ukraine or, if agreed by the parties, by conciliatory courts, including those abroad.

Translated by the Council of Advisors to the Parliament of Ukraine,
April 14, 1992.

ANNEX II

LAW

of the Russian Soviet Federative Socialist Republic on Foreign Investments in the RSFSR

(effective from September 1, 1991)

The present Law defines the legal and economic principles of foreign investments on the territory of the RSFSR and aims to attract and make effective use of foreign material and financial resources, advanced foreign machinery and technologies, managerial experience in the national economy of the Russian Federation.

The provisions of the present Law shall be effective on the territory of the RSFSR conformably to all foreign investors and enterprises with foreign investments.

Chapter I

GENERAL CLAUSES

Article 1. Foreign Investors

Foreign investors in the RSFSR may be:

foreign juridical persons including, in particular, companies, firms, enterprises, organizations or associations set up and entitled to make investments in accordance with the legislation of the country of their seat;

foreign nationals, stateless persons, Soviet citizens domiciled abroad, provided they are registered for carrying out business activity in the country of their citizenship or domicile;

foreign states;

international organizations.

Article 2. Foreign Investments

Foreign investments shall be all types of property and intellectual values put by foreign investors in projects of entrepreneurial and other types of activity with a view of deriving profit (income).

Article 3. Making Foreign Investments

Foreign investors have the right to make investments on the territory of the RSFSR through:

participation in enterprises set up in conjunction with juridical persons and citizens of the RSFSR and other Union republics;

the establishment of enterprises fully belonging to foreign investors as well as affiliated branches of foreign juridical persons;

the acquisition of enterprises, property complexes, buildings, structures, a share in enterprises, contributions, shares, bonds and other securities as well as other property which in accordance with the legislation in force on the territory of the RSFSR may belong to foreign investors;

the acquisition of the right to use land and other natural resources;

the acquisition of other property rights;

other investment activity which is not prohibited by the legislation in force on the territory of the RSFSR, including the granting of loans, credits, property and property rights.

Soviet currency shall be used by foreign investors to make investments in the manner and on the terms laid down by the legislation effective on the territory of the RSFSR.

Article 4. Objects of Foreign Investments

Foreign investments on the territory of the RSFSR may be made in any projects which are not prohibited for such investments by legislation. They may include:

newly established and modernized fixed assets and working resources in all sectors and spheres of the national economy;

securities;

tied money deposits;

scientific and technical products;

rights to intellectual values;

property rights.

Article 5. Legal Regulation of Foreign Investments in the RSFSR

The relations connected with foreign investments in the RSFSR shall be governed by the present Law and other legislative acts effective on the territory of the RSFSR as well as by international agreements. If an international agreement in force on the territory of the RSFSR lays down rules other than those contained in legislative acts of the RSFSR, the provisions of the international agreement shall be applicable.

Chapter 2

STATE GUARANTEES OF FOREIGN INVESTMENT PROTECTION

Article 6. Legal Conditions for Foreign Investments

Foreign investments on the territory of the RSFSR shall be accorded full and indisputable legal protection, which is assured by the present Law, other legislative acts and international agreements in force on the territory of

the RSFSR. Legal conditions for foreign investments and the activity of foreign investors to realize them cannot be less favourable than those for the property, property rights and investment activity of juridical persons and citizens of the RSFSR, except for the exemptions provided for by the present Law.

Article 7. Guarantees against Compulsory Withdrawals and Illegal Actions of State Administrative Bodies and Their Officials

Foreign investments in the RSFSR shall not be subject to nationalization and cannot be requisitioned or confiscated except for cases envisaged by legislative acts, when these measures are taken in public interests. In the event of nationalization or requisition foreign investors shall be paid prompt, adequate and effective compensation.

Decisions on nationalization are taken by the Supreme Soviet of the RSFSR. Decisions on requisition and confiscation are taken in the manner laid down by the legislation effective on the territory of the RSFSR.

Decisions by state administrative bodies on foreign investment withdrawals may be appealed against in courts of the RSFSR.

Foreign investors have the right to compensation for losses, including a loss of profit, caused as a result of the fulfilment of instructions from state agencies of the RSFSR or their officials, which are at variance with the legislation in force on the territory of the RSFSR, and also because of the improper discharge of duties by such agencies or their officials in respect to foreign investors or enterprises with foreign investments.

Article 8. Compensation for and Making Good Losses Incurred by Foreign Investors

The compensation paid to foreign investors shall correspond to the real value of the investments to be nationalized or requisitioned directly before the time of formal notice about the actual execution of or the coming nationalization or requisition.

Compensation shall be paid without unfounded delay in the currency of the original investments or in any other foreign currency acceptable to the foreign investor. Prior to the time of payment, interest is added to the compensation sum according to the interest rate in force on the territory of the RSFSR.

Losses, including a loss of profit, caused to foreign investors as a result of actions referred to in Article 7, point 2 of the present Law, shall be made good by the agency responsible for the above-said actions.

Article 9. Procedure for Settling Disputes

Investment disputes, including disputes over the size, terms or manner of compensation to be paid shall be settled in the Supreme Court of the RSFSR or the Higher Arbitration Court of the RSFSR, unless otherwise provided for in an international agreement in force on the territory of the RSFSR.

Disputes of foreign investors and enterprises with foreign investments with state agencies of the RSFSR, enterprises, public organizations and other legal persons of the RSFSR, disputes between investors and enterprises with foreign investments over questions relating to their business activity, and also disputes between participants in an enterprise with foreign investments and the enterprise itself shall be subject to consideration in courts of the RSFSR or by agreement between the parties in an arbitration court, and in cases envisaged by the law — in agencies set up to consider business disputes.

The international agreement in force on the territory of the RSFSR may provide for application to international instruments for settling disputes arising as a result of foreign investments on the territory of the RSFSR.

Article 10. Guarantees of Payments Transfer in Connection with Foreign Investments

Foreign investors, after payment of appropriate taxes and levies, shall be guaranteed unhindered transfer abroad of payments connected with their investments, provided these payments are made in foreign currency, and in particular:

investment incomes, including those in the form of profit, a share of profit, dividends, interest, licence remuneration and commission, payments for technical assistance and technical services as well as other rewards;

sums payable on the basis of money-demand rights and requirements for the discharge of contractual obligations of an economic character;

sums received by investors in connection with the liquidation or sale of their investments in full or in part;

compensation provided for in Article 8 of the present Law.

Article 11. Guarantees of the Use of Payments in Soviet Currency on the Territory of the RSFSR

Payments referred to in Article 10 of the present Law and received by foreign investors in Soviet currency from sources on the territory of the RSFSR and other Union republics, may be re-invested on the territory of the RSFSR and used in accordance with the legislation in force in the RSFSR.

To keep their financial resources in Soviet currency, foreign investors may keep current accounts in banks on the territory of the RSFSR, which have an appropriate licence from the Central Bank of the RSFSR, without the right to transfer sums from these accounts abroad.

Foreign investors may use ruble resources on such accounts to obtain foreign currency on the domestic market in the manner provided for by the legislation in force on the territory of the RSFSR.

For enterprises with foreign investments, manufacturing import-replacing products of macroeconomic importance, a fact which should be confirmed by a conclusion of the RSFSR Ministry of Foreign Economic Relations, the RSFSR Council of Ministers and the Councils of Ministers

of the republics within the RSFSR, may respectively at the expense of the RSFSR currency fund and the currency funds of the republics within the RSFSR, by agreement with a foreign investor, convert his profit in Soviet currency into foreign currency at the mutually agreed rate, but not higher than the rate of the State Bank of the USSR applicable to foreign economic transactions.

Chapter 3

ESTABLISHMENT AND LIQUIDATION OF ENTERPRISES WITH FOREIGN INVESTMENTS

Article 12. Organizational and Legal Forms and Types of Enterprises with Foreign Investments

On the territory of the RSFSR enterprises with foreign investments may be set up and operate in the form of joint-stock companies and other business associations and companies as provided for by the legislation of the RSFSR.

The following enterprises may be established and operate on the territory of the RSFSR:

enterprises with a share of foreign investments (joint ventures) as well as their subsidiaries and affiliated branches;

enterprises fully belonging to foreign investors as well as their subsidiaries and affiliated branches;

affiliated branches of foreign juridical persons.

Article 13. Procedure for Setting up Enterprises with Foreign Investments

An enterprise with foreign investments may be set up either by its establishment or as a result of acquisition by a foreign investor of a share (contributions, shares) in a previously founded enterprise without foreign investments, or by acquiring such an enterprise in full.

An enterprise with foreign investments may be set up in the manner provided for by the RSFSR legislation on enterprises and entrepreneurial activity, business associations and companies, with due regard for the addenda laid down by the present Law.

The acquisition by a foreign investor of a share (contributions, shares) in a previously founded enterprise without foreign investments, and the acquisition of such an enterprise in full may be effected in the manner provided for by the RSFSR legislation in force, with due regard for the addenda laid down by the present Law.

Article 14. Examination of Enterprises with Foreign Investments

In setting up enterprises with foreign investments connected with large-scale construction work or modernization, their appropriate preliminary examination is required.

Whenever necessary the establishment of enterprises with foreign investments an appropriate conclusion of sanitary and epidemiological experts and an ecological ex-

amination shall be made. All types of examinations and the issue of permissions shall be effected in the general manner in accordance with the RSFSR legislation in force.

For enterprises with foreign investments, whose ecological influence may affect the territory of more than one republic within the RSFSR, an ecological examination shall be carried out by a joint commission set up on a parity basis by the relevant bodies of interested republics within the RSFSR. Permissions shall be granted by the RSFSR State Committee on Ecology and the Use of Natural Resources on the basis of the conclusion of the joint expert commission.

Article 15. Founding Documents of Enterprises with Foreign Investments

The founding documents of enterprises with foreign investments shall define the subject and purposes of the activity of enterprises, the composition of their participants, the size and order of forming their authorized fund, the size of participants' shares in an enterprise, the structure, composition and competence of the management bodies, the procedure for taking decisions, the list of questions requiring unanimity, the procedure for liquidating enterprises.

Contributions to the authorized fund of an enterprise with foreign investments shall be assessed by agreement between its participants on the basis of world prices. In the absence of such prices the value of contributions shall be determined by agreement between participants. The assessment shall be effected both in Soviet and foreign currency, with the evaluation of the contributions in terms of rubles being made at the rate of the State Bank of the USSR applicable to foreign economic transactions.

Article 16. State Registration of Enterprises with Foreign Investments

State registration of enterprises with foreign investments is effected by the RSFSR Ministry of Finance or any other specially authorized state agency.

Enterprises where the volume of foreign investments exceeds 100 million rubles are registered by the RSFSR Ministry of Finance after permission of the RSFSR Council of Ministers. The RSFSR Council of Ministers is obliged, within two months from the date of application to the RSFSR Ministry of Finance, to grant permission or else motivate its refusal.

State registration of enterprises with foreign investments shall be effected given the following documents:

1) for joint ventures:

a) a written application of the founders for registering the enterprise to be set up;

b) notarized copies of the founding documents in duplicate;

c) conclusions of appropriate examinations in cases provided for by the law;

d) for Soviet juridical persons — notarized copies of the decision of the owner of property to set up an enterprise, or copies of the decision of the agency

authorized by him, and also notarized copies of the founding documents for each Soviet juridical person participating in setting up a joint venture;

e) a document on the solvency of the foreign investor, issued by the bank servicing him or by any other financial-credit agency (with a certified Russian translation);

f) extracts from the trade register of the country of origin or from any other equivalent evidence of the foreign investor's legal status in accordance with the legislation of the country of his seat, citizenship or domicile (with a certified Russian translation);

2) for enterprises fully belonging to foreign investors:

a) a written application from a foreign investor for registration;

b) a notarized copy of the founding documents (in duplicate);

c) a document on the solvency of the foreign investor, issued by the bank servicing him or by any other financial-credit agency (with a certified Russian translation);

d) an extract from the trade register of the country of origin for a foreign investor (with a certified Russian translation);

e) a conclusion of appropriate examinations in cases provided by the law;

3) for affiliated branches of enterprises with foreign investments and affiliated branches of foreign juridical persons:

a) an application for registration signed by the head of the enterprise setting up an affiliated branch;

b) a notarized copy of the extract from the decision of a competent body of the enterprise's management to set up an affiliated branch;

c) a notarized copy of the statutes of an affiliated branch (in duplicate);

d) notarized copies of the founding documents of an enterprise setting up an affiliated branch;

e) for a foreign juridical person — an extract from the trade register of the country of origin or from any other equivalent evidence of its legal status in accordance with the legislation of the country of its seat (with a certified Russian translation);

f) a conclusion of appropriate examinations in cases provided for by the law.

All addenda to and changes in the founding documents of already registered enterprises with foreign investments and of affiliated branches, data on their liquidation are subject to state registration.

A notarized copy of the decision of an enterprise's competent body to introduce amendments or addenda into the founding documents shall be submitted by the enterprise with foreign investments to the registry not later than 30 days after their adoption. The amendments and addenda to the founding documents shall come into force only after their registration.

Article 17. Time-Limits for Registering Enterprises with Foreign Investments

The RSFSR Ministry of Finance or any other duly authorized state agency are obliged within 21 days from

the date of an application to register the given enterprise with foreign investments or notify the applicant of the reasons for the refusal to do so.

The registered enterprise with foreign investments shall be given a registration certificate of the established pattern. The enterprise with foreign investments shall acquire the right of a juridical person from the date of registration. The information about the registration shall be reported by the local organ of power where the enterprise is located. The report about registration shall be published in the press.

Article 18. Refusal to Register Enterprises with Foreign Investments

State registration of an enterprise with foreign investments may only be denied in the event of violation of the procedure for setting up such an enterprise as established by the RSFSR legislation in force or the documents submitted for the purpose do not meet the requirements of this procedure. Denial of registration may serve as a basis for a legal appeal.

Article 19. Liquidation of Enterprises with Foreign Investments

Enterprises with foreign investments will go into liquidation in cases and in the manner envisaged by the RSFSR legislation in force for the relevant organizational and legal forms of enterprises.

In the absence, one year after an enterprise with foreign investments is registered, of documented confirmation of the fact that each of the participants in the enterprise have contributed at least 50% of the sums indicated in its founding documents to its authorized fund, the agency which has registered the given enterprise shall recognize it as unestablished and shall decide to liquidate it. Information about any such action shall be published in the press.

Registration of the fact of liquidating an enterprise with foreign investments shall be effected by the agency which has registered it according to a notification from the winding-up commission and the liquidation balance confirmed by an auditing organization. Information about the liquidation of an enterprise shall be published in the press.

Chapter 4

TYPES AND TERMS OF ACTIVITY OF ENTERPRISES WITH FOREIGN INVESTMENTS

Article 20. Types of Activity

An enterprise with foreign investments may carry out any type of activity which serves the purposes envisaged in its charter, except for those prohibited by the RSFSR legislation in force.

To carry out insurance activity and also intermediary activity connected with the movement of securities a enterprise with foreign investments should obtain a license

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from the RSFSR Ministry of Finance. For banking activity a licence is needed from the RSFSR Central Bank. The RSFSR Council of Ministers may determine other types of activity for enterprises with foreign investments that may be carried out only on the basis of a special permission (licence).

Article 21. Subsidiaries, Affiliated Branches and Offices of Enterprises with Foreign Investments

An enterprise with foreign investments may set up subsidiaries with the rights of a juridical person as well as affiliated branches and offices on the territory of the RSFSR and outside it, including those in other countries, with observance of the terms laid down by the RSFSR legislation in force, the legislation of Union republics and the relevant legislation of foreign states.

Affiliated branches and offices of enterprises with foreign investments shall function on the basis of their statutes approved by the relevant enterprise with foreign investments. They shall have the right to open accounts in banking institutions of the RSFSR.

Article 22. Terms of Realization of Goods, Work and Services on the Market of the RSFSR

An enterprise with foreign investments may on a contractual basis define the terms of realization of its products (work, services) on the market of the RSFSR, including the price for them, and also the terms of delivery of goods and provision of services from this market. Payment by an enterprise with foreign investments for the supply of goods and services from the market of the RSFSR, including payment for the use of living accommodation and uninhabitable premises on the territory of the RSFSR, shall be made in Soviet currency.

Article 23. Associations and Unions of Enterprises with Foreign Investments

Enterprises with foreign investments may on a voluntary basis unite in unions, associations, concerns, intersectoral regional and other amalgamations on terms not contradicting the antimonopoly legislation in force on the territory of the RSFSR, and in the manner envisaged by RSFSR legislative acts.

Within the framework of such amalgamations enterprises with foreign investments may secure their currency self-recoupment.

Article 24. Customs Taxation

Property imported into the RSFSR as foreign investors' contribution to the authorized fund of enterprises with foreign investments, within the time-limits fixed by the founding documents for their formation, and also property intended for an enterprise's own material production, shall

be exempted from customs duties and shall not be subject to the import tax.

Property imported into the RSFSR by foreign workers of enterprises with foreign investments for their own needs shall be exempted from customs duties.

Article 25. Export and Import of Goods and Services

Enterprises fully belonging to foreign investors as well as joint ventures in whose authorized fund foreign investments account for over 30% have the right to export without licences products of their own make and import products for their own needs, except for the cases envisaged in the international agreements effective on the territory of the RSFSR. The procedure for determining export products of one's own make and products imported by enterprises for their own needs shall be established by the RSFSR Council of Ministers on the basis of the rules of goods' origin corresponding to world practice.

Currency earnings of the above-said enterprises from the export of their own products shall remain fully at their disposal. The export and import of other products (services) shall be made by all enterprises with foreign investments on general principles.

Article 26. Currency Self-Recoupment

All currency expenditures connected with the performance by enterprises with foreign investments of different types of business activity on the territory of the RSFSR, including the transfer of a share of a foreign investor's profit abroad, shall be covered from their own currency earnings from that particular activity and also from other foreign currency sources permitted by legislative acts. Transactions in foreign currency shall be effected by enterprises with foreign investments in the manner laid down by the RSFSR legislation in force.

Article 27. Property and Risk Insurance

Property and risk insurance of an enterprise with foreign investments shall be effected at its discretion, unless otherwise is envisaged by the RSFSR legislation in force.

Article 28. Taxation

Enterprises with foreign investments and foreign investors shall pay taxes fixed by the RSFSR legislation in force.

A preferential taxation order may be established for enterprises with foreign investments operating in priority sectors of the economy and in certain regions.

Article 29. Checking for Purposes of Taxation

Checking for taxation purposes of the financial and commercial activity of enterprises with foreign investments shall be effected by auditing organizations of the RSFSR.

Article 30. Book-keeping and Accounting

Book-keeping and accounting at enterprises with foreign investments on the territory of the RSFSR shall be conducted according to RSFSR regulations or, if a foreign investor so desires, by the regulations of the country of his origin.

For the financial balance and accountancy purposes an enterprise with foreign investments shall evaluate foreign currency in terms of rubles at the rate applicable by the State Bank of the USSR for foreign economic transactions.

Article 31. Security of Obligations

The property of an enterprise with foreign investments may be used by it as a security for all types of obligations, including attraction of borrowed resources. Its property rights to buildings, structures, equipment as well as other property rights may serve as a security for obligations.

Mortgaged property or property rights may be sold by the mortgagee for Soviet currency or foreign currency at agreed prices, as well as sold at auctions to juridical persons and citizens of the RSFSR, and in the cases envisaged by legislative acts in force in the RSFSR — also to foreign juridical and physical persons and their associations.

Article 32. Rights to Intellectual Property

Rights to the intellectual property of enterprises with foreign investments are protected and exercised in accordance with the RSFSR legislation in force.

Enterprises with foreign investments shall sign with their workers an agreement concerning the rights to objects of intellectual property, created in accordance with assignments confirmed by an enterprise's documents.

A patent for an invention, an industrial sample and a trade mark shall be granted to the enterprise on signing an appropriate agreement between the worker and the enterprise. This agreement along with the cession by the worker to the enterprise of the right to the patent shall determine the enterprise's reciprocal obligations to assure conditions of a material, production and social nature with respect to the worker. If such an agreement between a worker and an enterprise with foreign investments has not been signed, then the patent shall be granted to the author of the invention, industrial sample or trade mark. The enterprise shall have the right to use this invention, industrial sample or trade mark on terms laid down in the agreement with the author — the patent holder.

An enterprise with foreign investments independently takes decisions on patenting abroad the inventions and industrial samples belonging to it.

Article 33. Labour Relations

Labour relations, including questions of hire and dismissal, conditions of work and rest, terms of payment for

labour, guarantees and compensations at an enterprise with foreign investments shall be regulated by a collective agreement and individual labour agreements (contracts).

The provisions of a collective agreement and individual labour contracts may not worsen the condition of the workers of enterprises as compared with the condition envisaged by the RSFSR legislation in force.

The staff of white- and blue-collar workers and the managerial bodies of enterprises with foreign investments may include foreign nationals. The conditions of hire, work and rest and of the provision of pensions for foreign workers shall be agreed in an individual labour contract with each of them. Wages received by foreign workers in foreign currency may after payment of tax be transferred by them abroad.

The activity of trade unions at enterprises with foreign investments shall be conducted on the basis of the RSFSR legislation in force.

Article 34. Social Insurance and Security for Workers at Enterprises with Foreign Investments

Social insurance of workers at enterprises with foreign investments and their social security (except the provision of pensions for foreign workers) shall be governed by the norms of the RSFSR legislation in force.

Payments for the provision of pensions for the foreign workers of an enterprise with foreign investments shall be transferred to the relevant funds of the countries of the domicile in the currency and on the terms of these countries.

Enterprises with foreign investments shall make deductions for the state social insurance of Soviet and foreign workers and deductions for the provision of pensions for Soviet workers at the rates fixed for enterprises and organizations of the RSFSR.

Chapter 5

ACQUISITION BY FOREIGN INVESTORS OF STOCKHOLDINGS IN ENTERPRISES, SHARES AND OTHER SECURITIES

Article 35. Acquisition by Foreign Investors of Stockholdings, Contributions, Shares and Other Securities of Enterprises

Foreign investors have the right to acquire stockholdings, contributions, shares and other securities of enterprises sited on the territory of the RSFSR. Stockholdings (contributions, shares) in enterprises may be obtained by foreign investors for Soviet currency received as income from sources within the territory of the RSFSR and other Union republics, and also for foreign currency. In the latter case evaluation of foreign currency in terms of rubles may be effected at the rate of the State Bank of the USSR applicable for foreign economic transactions.

**ACQUISITION BY FOREIGN INVESTORS
AND ENTERPRISES WITH FOREIGN
INVESTMENTS OF THE RIGHT TO USE
LAND AND OTHER PROPERTY RIGHTS**

Foreign investors shall not have a right to use Soviet currency purchased at the rate below than that applied by the State Bank of the USSR in respect of foreign economic transactions to purchase stockholdings, its contributions, shares and other securities.

If stockholdings (contributions, shares) in an enterprise have been paid for by a foreign investor for foreign currency, then the particular enterprise shall be considered as an enterprise with foreign investments.

In the event of payment in Soviet currency, an enterprise shall be considered an enterprise with foreign investments if the foreign investor owns over 50% of the stockholdings (contributions, shares). In this case the preferences provided for in Article 25 of the present Law shall apply to the given enterprise.

Acquisition by foreign investors of stockholdings, contributions, shares and other securities shall be subject to registration with the RSFSR Ministry of Finance or other fully authorized state agencies.

Acquisition by foreign investors of shares and other securities on stock exchanges shall be governed by the RSFSR legislative acts on stock exchanges and exchange business.

**Article 36. Acquisition by Foreign
Investors of State Securities**

Acquisition by foreign investors of state securities may take place with the permission of the RSFSR Ministry of Finance or central financial agencies of republics within the RSFSR.

**Article 37. Participation of Foreign
Investors in Privatization**

Foreign investors may participate in privatizing state and municipal enterprises and capital projects in progress on the territory of the RSFSR. The terms of their participation in competitions and auctions connected with the privatization of state and municipal enterprises are defined by the RSFSR legislation in force.

The cost of the acquired enterprises or stockholdings (contributions, shares) shall be paid in Soviet currency.

Foreign investors may for privatization purposes use funds in Soviet currency on their accounts, which have been received as an income from sources located on the territory of the RSFSR and other Union republics.

Foreign investors shall not have a right to use for privatization purposes Soviet currency purchased at the rate below that applied by the State Bank of the USSR for foreign economic transactions.

Foreign investors may exchange foreign currency resources at their disposal for Soviet currency at the rate used by the State Bank of the USSR for foreign economic transactions and place them in special accounts with the Central Bank of the RSFSR and other specially authorized banks. Resources from the above-said accounts may be spent exclusively on privatization purposes. Foreign investors shall have the right to reconvert the remaining sums on these accounts into foreign currency.

**Article 38. The Right to Use Land
and Other Natural Resources**

The granting to foreign investors and enterprises with foreign investments of the right to use land, including its lease, and other natural resources is governed by the RSFSR Land Code and other legislative acts in force on the territory of the RSFSR.

Article 39. Lease of Property

The granting of property on lease to foreign investors and enterprises with foreign investments shall be effected by lessors under a lease in conformity with the legislation in force on the territory of the RSFSR.

The lease of property in the federal possession of the RSFSR to the value of more than 100 million rubles shall be effected with the permission of a state agency entitled to manage this property.

Article 40. Concessive Agreements

The granting to foreign investors of the right to develop renewable and nonrenewable natural resources and carry out business activity connected with the use of projects in the possession of the state but not handed over to enterprises, institutions or organizations for their full economic use or operational management, shall be effected on the basis of concessive agreements to be signed with foreign investors by the RSFSR Council of Ministers or any other specially authorized state agency in the manner laid down by the RSFSR legislation on concessions.

The validity of a concessive agreement shall depend on the nature and terms of the concession, but may not be more than 50 years.

A unilateral alteration of the terms of a concessive agreement shall not be allowed, unless otherwise envisaged in the agreement.

Concessive agreements may contain exemptions from the legislation in force on the territory of the RSFSR. In this case they shall be subject to approval by the Supreme Soviet of the RSFSR.

Chapter 7

**FOREIGN INVESTMENTS IN
FREE ECONOMIC ZONES**

Article 41. Free Economic Zones

With a view to attracting foreign capital, advanced foreign machinery, technologies and managerial experience, and developing the export potential of the

RSFSR, free economic zones shall be set up on its territory. In the said areas preferential conditions, as compared with common treatment, shall be established for the business activity of foreign investors and enterprises with foreign investments.

Article 42. Conditions for the Business Activity of Foreign Investors and Enterprises with Foreign Investments in Free Economic Zones

Foreign investors and enterprises with foreign investments engaged in business activity in free economic zones may, besides the rights and guarantees envisaged by the legislation in force on the territory of the RSFSR, be granted additional privileges:

a simplified manner for registering enterprises with foreign investments; enterprises with a volume of foreign investments up to 75 million rubles shall be subject to registration with specially authorized agencies directly in free economic zones;

preferential taxation conditions: foreign investors and enterprises with foreign investments shall be subject to

taxation at reduced tax rates, including the tax on profit transferable abroad. These tax rates may not be less than 50% of the tax rates in force on the territory of the RSFSR for foreign investors and enterprises with foreign investments;

reduced rates for the use of land and other natural resources; granting of the right to long-term lease for a period of up to 70 years with the right of sublease;

special customs conditions, including reduced customs duties on the import and export of goods; a simplified procedure for crossing the state border;

a simplified procedure for the entry and exit of foreigners and nationals, including visa-free trips.

The types and volumes of privileges on the territory of free economic zones shall be established by the RSFSR Council of Ministers and approved by the Supreme Soviet of the RSFSR.

Boris Yeltsin
Chairman of the Supreme Soviet of the RSFSR

Moscow, the House of Soviets of the RSFSR
July 4, 1991

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