Reports

SAIIA REPORTS

Report number 31

Nyet and the Nomenklatura

South Africa and shipbuilding in the Ukraine: Appraising Economic, Political and Military Reforms

Greg Mills

SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

Nyet and the Nomenklatura
South Africa and Shipbuilding in the Ukraine: Appraising Economic, Political and Military Reforms

THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

ISBN: 1-919810-62-5

SAIIA Report No. 31

Nyet and the Nomenklatura
South Africa and Shipbuilding in Ukraine: Appraising Economic, Political and Military Reforms

Greg Mills[1]

Instead of standing tall, Ukraine is staggering like an exhausted miner through the gloom, courting disaster with every step.

The Globe and Mail, 23 August 2001[2]

Perceptions have become powerful determinants in shaping a country's international image. The persistent association of a country, rightly or falsely, with negative issues, including arms transfers, lead to a situation of 'guilt by association' and loss of trust, credibility and international standing.

South African Ambassador Delarey van Tonder
Ukraine, 2002

The problem isn't that Ukraine is poor, but rather how thoughtlessly it is organised.

Yulia Tymoshenko[3]

---

1 DR GREG MILLS is the national director of the South African Institute of International Affairs, based at the University of the Witwatersrand, Johannesburg. He visited Ukraine in June 2002. This paper is the result of extensive interviews with private and public sector officials. Appreciation is expressed to the Embassy of South Africa in Kiev and the Centre for Defence and International Security Studies (CDISS) and, in particular, to Ambassador Delarey van Tonder and Professor Martin Edmonds for their support and kind assistance in this regard. Please note, however, that all opinions expressed herein are the author's alone.

2 *The Globe and Mail*, 23 August 2001 cited in *Ukraine Monitor*, October–December 2001, p.45.

3 Yulia Tymoshenko is an opposition parliamentarian in Ukraine. This statement was contained in an interview with Ms Tymoshenko in *The Romyr Report*, 1/13, Spring 2002.

Introduction and Summary

It was once said of the former Soviet Union, 'There are no experts, only varying degrees of ignorance'. The past decade has shown this to be as true of outsiders as it is of the attempts made by Russians, Ukrainians and other former Soviets to get to grips with the challenges of economic reform and the transition from a command economy to a market economy.

Ukraine, once the breadbasket of the Soviet Union, is a particular case in point. The state experienced 10% annual economic decline during the 1990s, when inflation averaged over 400%, peaking at 10,526% in 1993. Industrial output fell by 48.9%, agricultural output by 51.5%, and real wages declined four-fold during this period. Like much of the former Soviet bloc, on its independence in August 1991, Ukraine inherited an economy based on heavy industry reliant on outdated technology and on its agricultural sector. The problems associated with this industrial/agricultural reliance have been compounded by widespread corruption, the emergence of a considerable shadow economy (estimated at 60–70% of official figures), tax avoidance and Ukraine's excessive regulations. While foreign direct investment (FDI) stock totalled just $4.4 billion by 2001, capital flight is estimated to have exceeded $20 billion over the last eight years. Government officials have estimated that $40 billion is required to complete Ukraine's transition to a market economy, yet it has attracted just 2.5% of regional FDI, a share comparable to the smaller economies of Slovakia and Croatia.

These problems are reflected in its relationship with regional big-brother (and principal trade partner) Russia. Kiev is heavily dependent on Russia for its energy supplies. In what has been described as a 'multi-vectored' policy, Ukraine has attempted to balance its foreign policy ties by strengthening relations with the West while avoiding a rift with Russia.

Ukraine: Basic Facts	
Population	52 million
GDP ($ billion), 1998	38.7 ($3,458 PPP per capita)
Economic performance (GDP per capita growth) (%), 1975–99 (1990–99; 2001)	-9.2 (-10.3; 9.1)
Unemployment (official), 2002	3.8%
Inflation (average annual change) (%), 1990–99	413.4
Foreign debt ($ billion), 1998	9.5
Trading partners, 2001	Russia accounts for 36.9% of Ukraine's exports and 22.6% of its imports. Turkmenistan (10.5%) and Germany (8.7%) are the next biggest import providers whilst Turkey and Italy account for 6.2% and 4.4% of Ukraine's exports. The main exports are: ferrous metals and products (31.6%), chemicals (10.6%), and machinery and equipment (9.6%). Ukraine's main imports are: fuels and oils (45.6%), and machinery and equipment (15.2%).
FDI (cumulative $ billion), 2002	4.4
Size of the armed forces (navy, air force, army, ministry of internal affairs, national guard, and border guard — excluding civilians), 2000.	303,800 active; one million reserves (13,000; 96,000; 151,200; 42,000; 26,000; 34,000)
Military spending ($m), 2001	580 (1.2% of GDP)
PPP: Purchasing power parity	

Ukraine does not enjoy a strategic relationship with South Africa and the trade relationship between the two countries remains minimal. However, Ukrainian officials see a number of areas for increasing trade and investment ties with South Africa, including shipbuilding; co-operation over space and satellite technology, and pharmaceuticals and medicine; and teacher and student exchanges. But major obstacles to the realisation of improved trade and investment relations remain. These include ongoing stereotypes and the mindset of the Ukrainians about doing business generally and about Africa in particular. With Ukrainian involvement in arms sales to the continent totalling $150 million in 1999, and given evidence linking Ukrainians to criminal activities including money-laundering and people smuggling, the bilateral relationship remains defined more by the need to limit corrosive transnational activities than by its inherent potential.

The shipbuilding industry in Ukraine has an ancient history documented from Viking times — from manufacturing sailing frigates and *chaykas* (small sailing ships) to the aircraft carriers, tankers, hovercrafts and hydrofoils built while Ukraine was part of the Soviet Union. Ukraine borders the Black Sea and rents facilities in its port of Sevastopol to the Black Sea Fleet (BSF), which comprises 250 vessels. Ukrainian naval forces, with about 100 vessels (many of which are unserviceable) are also based in Crimea. South African links with Ukraine's shipbuilding industry have been limited, and have centred on the acquisition of the *SAS Outeniqua* replenishment vessel/ice-breaker in 1993.

This report provides an historical and contemporary overview of the Ukrainian military and its shipbuilding industry, the business environment, and South African and continental relations with Ukraine, and assesses the potential for expanded ties.

Historical and Contemporary Political Overview

Yalta, the Ukrainian city on the tip of the Crimean peninsula, is best known for hosting the February 1945 conference between the wartime 'Big Three' of Roosevelt, Churchill and Stalin. The meeting, held in the Tsar's Lavardia summer palace, heralded the start of the Cold War, two years before Churchill delivered his 'Iron Curtain' speech. Forty-six years later attention again shifted to the Crimea where the then Soviet premier, Mikhail Gorbachev, was held under house arrest in his *dacha* on the peninsula during an attempted hardliner coup in Moscow in August 1991.

Until the collapse of the Soviet Union, Ukraine had never existed as an independent state. Today it is struggling to emerge from more than 300 years of Russian domination, the effects of which were exacerbated during the past century by the distortions of Soviet command economics.

Ukraine was largely incorporated into the Russian Empire after the second partition of Poland in 1793. In 1917, following the Bolshevik revolution, the Ukrainians in Russia established an independent republic. Between 1922 and 1932, Ukrainian nationalism was severely repressed by the Soviet Union. Ukraine suffered a forced collectivisation of agriculture and the expropriation of foodstuffs, and more than seven million people died in the resultant famine of 1932–33.

Ukraine also suffered dramatically during the Second World War. A number of Ukrainians fought on the side of the Nazi forces after the invasion of Russia in 1941 in the vain hope that a Ukrainian republic would be established under German protection. Ukraine was re-taken by the Soviet Union in 1944, after which a period of further repression ensued, particularly against the Tartars. An estimated one-half of the adult male and one-quarter of the adult female population — six million people — died during the Second World War.

With the Soviet Union's takeover of Western Ukraine in 1945 and the transfer of Crimea to Ukraine in 1954, the former Soviet state obtained its present day borders. Growing political divisions between Ukraine and the Soviet Union during Gorbachev's *glasnost* came to a head following the attempted coup in Moscow on 19 August 1991. Faced with a choice to declare for the Soviet Union or to support the nationalists, the Ukrainian prime minister, Leonid Kravchuk, banned the Communist Party on 24 August 1991 and the Ukrainian Party declared independence on the same day. Kravchuk won 60% of the vote in the presidential election in December 1991 and a simultaneous referendum on independence was supported by 90% of the electorate.

However, Kravchuk failed to implement much-needed economic reforms, including relinquishing price controls and subsidies to state-owned business, and freeing up trade and private enterprise. Kravchuk was defeated by the former head of the Pivdenmach missile factory, Leonid Kuchma, in the July 1994 presidential election. During the first Kuchma administration (1994–98), Ukraine built new ties with the West and attempted radical economic reforms similar to those favoured by the International Monetary Fund, although these were resisted by both left-wingers and emerging oligarchic interests. The Kuchma presidency has been characterised by halting attempts at economic reform, various efforts to increase the powers of the presidency at the expense of parliament, and, increasingly, by allegations of corruption and more nefarious activities in the presidency itself.

Despite his unpopularity after five years of economic decline, Kuchma used his tight control over the media and the disagreements among the left-wing opposition to win a second term in the 1999 presidential election. He used his majority to appoint a reformist prime minister, Viktor Yuschenko, thus ensuring an unprecedented degree of co-operation between the centre and centre-right parties.

Yuschenko's government was able to make some progress with economic reforms, achieving 6% and 9% GDP growth in 2000 and

2001 respectively. (Estimates of GDP growth for 2002 vary between 2.5% and 6%.[4]) However, these achievements were largely overshadowed by the release (in November 2000) of audio recordings allegedly of conversations involving Kuchma and which implicated the president in a wide range of abuses including electoral fraud, corruption and the disappearance of an opposition journalist, Georgy Gongadze, whose headless corpse was discovered outside Kiev during the same month. Yuschenko resigned following the passing of a motion of no confidence in his cabinet by the *Verkhovna Rada* (parliament) on 26 April 2001. Western governments reacted with concern, fearing a further weakening of Kuchma's faltering commitment to economic reform, and the movement of Ukraine closer to the Russian orbit of influence.

There are essentially three political groupings present in Ukraine today. The first of these is the 'reformist' faction headed by the former central bank governor and former prime minister, Viktor Yuschenko. Supported by around 25% of the electorate, his 'Our Ukraine' party is largely social democratic in its values and promotes a European style of policymaking and values.

A second 'nostalgia' Communist Party faction is led by Petro Symonenko — Kuchma's closest challenger in the 1999 presidential election. Favouring a return to Soviet politics and social structures, its 20% parliamentary presence is being eroded by its comparatively aged supporters in the electorate.

The third faction of 'stability without war' (otherwise termed the '*nomenklatura* option') is that of President Kuchma. Tainted by its links to business oligarchies and by allegations of involvement in the Gongadze murder, and losing credibility in the face of ongoing economic problems, this 'United Ukraine' bloc enjoys only 10% support — less than half of the support it had enjoyed three years

[4] See 'Ukraine's economic odyssey 2011', *Kyiv Weekly*, 21 June 2002.

before. Seeking a way out of the political and economic impasse, Kuchma has rhetorically committed Ukraine to membership of the World Trade Organisation (WTO), the North Atlantic Treaty Organisation (NATO) and the European Union by 2003, 2010 and 2011 respectively.

Membership of these bodies is, however, less about foreign policy direction than it is about the sort of economy and political system Ukraine wishes to have. Membership of these organisations demands strict economic management, the adoption and implementation of liberal policies and the creation of effective institutions, and is dependent on Ukraine's questionable ability (and its political will) to promote serious economic and political reforms.

The business environment

According to foreign Ukrainian specialists, Ukraine's business environment is opaque, subject not to the rule of law, but rather to the whims of an oligarchic elite close to government. It is for these reasons that, while Western multinational companies are present, there are few smaller companies in Ukraine. Members of the judiciary and the police force are viewed by many as being corrupt out of necessity as they are unable to survive on their meagre government salaries. In an environment where the shadow economy is estimated to be almost as large as the real economy and where business is vulnerable to a lack of regulation, Ukraine was ranked third (behind Nigeria and Yugoslavia) among the most corrupt countries by Transparency International in 2001.

Difficulties in the business environment include:[5]

- unstable and excessive regulations;
- ambiguity in the legal system;
- the uncertainty of the economic reform process;
- corruption;
- the high tax burden;
- difficulties in establishing clear ownership conditions;
- low (and depressed) disposable income levels;
- a lack of trust in formal economic institutions by the population at large;
- difficulty in negotiating with government and opaque privatisation processes;
- the volatility of the political environment;
- a lack of physical infrastructure which is of poor quality where it does exist; and
- problems in entering domestic and export markets.

The legacy of the Soviet system dominates the Ukrainian bureaucratic and business environment. As James Sherr has noted:[6]

> In Ukraine, official and criminal structures have effectively merged. Ukraine expects the West to take more risks on its behalf than it is prepared to take itself. Neither Western assistance nor pressure produces results.

Arguably — as has been Russia's experience — until the benefits flowing from legitimate business activities are greater than those resulting from shadow or illegal activities, the Ukrainian business environment and the legal system will continue to be, at best,

---

5 For details on the business and legal environment, see Baker and McKenzie, *Doing Business in Ukraine* (PDF file), *http://www.infoukes.com/ukremb/trade-ec.shtml*, January 2002.

6 Cited in Shea T, 'Shaping on NATO's doorstep', *Joint Forces Quarterly*, Autumn/Winter 2001–02, p.63.

ambiguous in its implementation and, at worst, venal and voracious in its operations.

Perhaps nowhere are the difficulties of reform more evident than in the military, where the *nomenklatura* of senior officers 'are classic products of the Soviet military, more concerned with perks and privileges than showing initiative and seeking responsibility'.[7]

The Military Situation and Challenges

Ukraine is recognised as a pivotal stabilising power in Central Europe. As the second largest country in Europe (by geographic area) and with the second-largest military outside of NATO (behind Russia), its role and status is acknowledged in terms of a variety of Western foreign policy overtures and initiatives, including membership of NATO's Partnership for Peace programme in 1994, and the establishment of a UK–Ukraine strategic partnership in 1996. Ukraine has had to balance its traditionally ambiguous and complex relationship with Russia with an ambitious 'multi-vectored' foreign policy, including economic links with the West and close relations with the former Soviet states of Georgia, Uzbekistan, Azerbaijan and Moldova.

However, there are enormous challenges ahead for the Ukrainian military as it reorients itself away from its previous role as a part of the Soviet military machine towards becoming the all-professional force necessary to qualify for NATO membership. In addition, it must reduce its current force level of 389,000 (including civilians) to 230,000 by 2015.[8] These challenges can be summarised as being those of: money, modernisation, the military elite, manpower, matériel and the military industry.

---

[7] *Ibid.*

[8] Ukraine has already reduced its force from 720,000 in 1991.

While there is respect in NATO circles for the professional capacity of Ukrainian officers,[9] their operating parameters are severely constrained by a lack of finances. The annual military budget, set nominally at 3% of GDP, is, in practice, around one-third of this amount, or just under $600 million. This means, in effect, that soldiers are poorly paid and sometimes are not paid at all, and that there is little money for operational exercises and training. For example, although the air force possesses 900 fighter aircraft, in 2001 only 285 pilots reputedly logged the requisite 75–120 flying hours considered the minimum necessary for combat readiness. The average flying time for all pilots was just 15 hours. The navy experienced a shortage of fuel, with the result that exercises were only carried out with other nations. Of the 30 combat and 70 support vessels in the navy, only two (one frigate and one amphibious vessel) designated for the NATO Partnership for Peace programme are known to be operational, although around 10 could reportedly be put to sea and could undertake missions. [10] The army only carried out live small arms practice, while tank-firing was carried out from static positions only.

As noted previously, salaries are low. Conscripts (numbering 110,000) receive no pay at all (although board and lodging is provided). The minimum professional (contract) soldier's salary is $40 per month while, at the top end of the scale, a general receives little over $200 per month. An estimated 30,000 troops received their salaries as contained in the 2001 budget. By the military's own admission, over 70% of Ukrainian army officers are low-paid and need better housing conditions and amenities.[11] The massive

---

[9] This is evidenced by the fact that, as of June 2002, 1,600 Ukrainian peacekeepers were participating in ten peacekeeping missions, including nine under the United Nations in Ethiopia and Eritrea; Bosnia and Herzegovina; Georgia; the Democratic Republic of Congo; Kosovo; Lebanon; East Timor; Sierra Leone and Croatia.

[10] For example, Ukraine's only submarine (a *Foxtrot*-class vessel) is unlikely to put to sea again.

[11] See *UNIAN MIC*, 10–16 June 2002.

downturn in defence orders has meant that the defence industry is currently running at an estimated 5% of its 1991 capacity.[12]

As with the Russian armed forces, modernisation of the Ukrainian military apparatus goes beyond a need to upgrade decaying infrastructure, institutions and equipment. Rather, it requires a change in the social status and systems of the institution, where the senior elite act to protect vested institutional and personal interests and the conscript force is seen as little more than cheap labour. The manpower challenge also relates to the necessary shift from a conscript army to a professional one, from an army geared to meeting the Cold War threats of the past to an institution able to meet today's needs in respect of addressing a less clear threat and which is geared to meeting complex emergencies.

[12] These statistics were gathered during the course of a series of discussions and interviews in Ukraine, including an interview with Sergii Zgurets, editor-in-chief of *Defence Express*, Kiev, 18 June 2001.

These challenges can be summarised schematically as follows:

FROM	TO
• poor public image and little support; • insufficient funding; • inadequate and obsolete equipment; • conscript-based force totalling 400,000 (including civilians) • Soviet mindset and role; • rank inflation and small non-commissioned officers' cadre; • vested institutional interests; and • attrition-style war-fighting.	• better per capita funding; • modern equipment; • professional army, standards and management; • NATO inter-operability; • balanced force structures; • high-tech war-fighting; and • collective *security*, rather than a collective defence paradigm.

Indeed, Ukrainian officers are obsessed with the need for increased funding to enable the progression to a modern force. In reality, however, this process requires much more than money, including downsizing, base closures, an end to conscription, the adoption of a new professional ethos and management style, and, critically, working with a much wider range of stakeholders than has previously been the case, including parliament; other government departments; non-governmental organisations (NGOs); the police and border guards; the defence industry; the armed forces' reserve and international organisations.

The fundamental problem is that the Ukrainian military has little concept of what the necessary reforms should involve and with whom they should co-operate in carrying out these reforms. They see reform largely as a series of piecemeal, incremental steps shaving capacity in return for additional (mainly external (that is, NATO)) funding — a process developed, undertaken and adjudicated upon by themselves. But reform requires a radical process of transition with dramatic cuts and institutional (re)formulation in partnership with international, parliamentary and other governmental and non-governmental bodies.

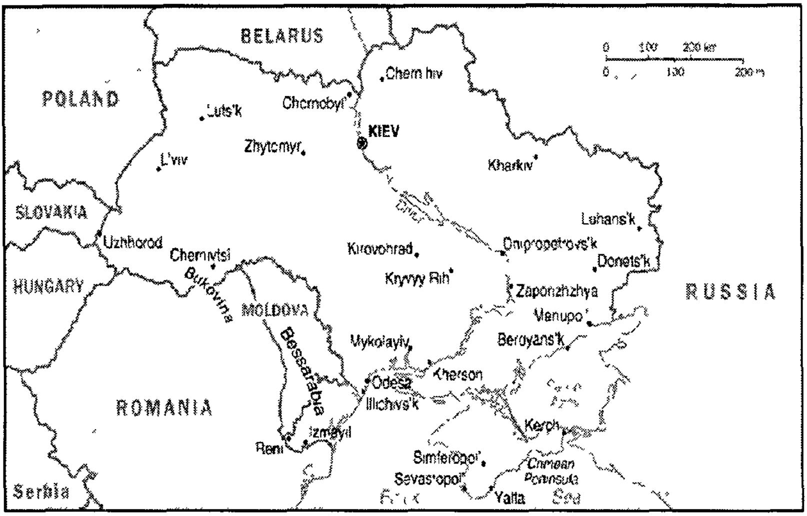
It should be acknowledged, however, that Ukraine has accepted the transitional challenges relatively well by comparison to other former Eastern bloc countries (such as Poland and the Czech Republic), where the military was similarly geared to a particular Soviet style of Cold War attrition warfare. Indeed, the challenges inherent in restructuring from a Cold War-type military focused on *collective defence* to one focused on *collective security* has yet to be fully understood and acted upon by a number of NATO member states.

The need for a new mindset in both the Ukrainian military and in the Ukrainian business environment is reflected in the challenges faced by its shipbuilding industry.

Ukraine's Navy and Shipbuilding Industry

Ukraine was the major centre for shipbuilding in the former Soviet Union, producing in the Mykolaiv region alone an estimated 55% of all naval and specialist vessels, including tankers; dry-cargo and container ships; hydrofoils and hovercrafts; and ship-cranes and dry-docks (see below).[13] With the longest coastline in the world, more than 70% of the Soviet Union's boundaries were maritime boundaries. Ukraine was thus central to the Soviet Union's global and maritime ambitions.

[13] See *http://www.defencejournal.com/dec98/russian-navy.htm*. For a good summary on the shipbuilding industry, see the three-part series entitled 'Its all in the hull', *Eastern Economist*, February–March 2002.



By the late 1990s, however, the once-mighty Soviet fleet and its shipbuilding industry were in tatters.[14] Following the collapse of the Soviet Union, Russia retained only 66% (113) of the 170 factories and enterprises directly supporting naval shipbuilding. This was primarily as a result of the loss of the Ukrainian shipbuilding yards. Indeed, the Soviet break-up necessitated a process of dividing the common assets of the Soviet republics between the newly independent states. It also forced the division of the Russian navy into four independent fleets: the Northern Fleet (at Severomorsky), the Baltic Sea Fleet (at Kaliningrad), the Black Sea Fleet (at Sevastopol), and the Pacific Ocean Fleet (at Vladivostok).

[14] By 1998, it was estimated that the Russian navy was receiving less than 20% of the funds needed to pay for operations, new construction, maintenance, basing, support and personnel. The impact on operations was acute. There were fuel shortages, sea time was cut drastically and there were huge arrears of power supplies to naval bases, dockyards and other shore facilities. There have also been serious environmental problems posed by the disposal of over 100 nuclear submarines laid up and awaiting decommissioning. See *http://www.defencejournal.com/dec98/russian-navy.htm.*

The issue of the Black Sea Fleet (BSF) has, however, been a source of major contention between Ukraine and Russia. Russian interest in the Black Sea extends over more than two centuries since Catherine the Great annexed the Crimean peninsula in 1783 and established a naval base in the city of Sevastopol. The BSF's decline has paralleled the problems experienced by the Ukrainian shipbuilding industry in its transition from an asset of the Soviet military–industrial complex to a market-driven commercial concern from 1992 onwards.

Given the importance of the BSF to Ukraine's shipbuilding industry, its fate merits further discussion. The BSF (whose home ports were in Ukraine) proved to be something of a political football between the two embryonic states of Ukraine and Russia following the break-up of the Soviet Union. Negotiations on the future of the BSF revolved around three issues:

- the division of the warships into a Russian BSF and a Ukrainian navy;
- Russian naval basing rights in and around Sevastopol; and
- the question of which country had ultimate sovereign control over the peninsula.

At the time of the disintegration of the Soviet Union, estimates of the number of ships counted in the BSF — once the 'jewel' of the Soviet navy — varied from as many as 635 to as few as 300 warships and submarines. The number of Russian personnel in the BSF was estimated at between 47,000 and 70,000. In 1995, the fleet reportedly had approximately 48,000 naval and marine personnel, 14 submarines, 31 surface ships, 43 patrol and coastal ships, 125 combat aircraft, and 85 helicopters. Although Ukraine had no use for a blue-water navy and could not (and still cannot) afford to maintain one, it was reluctant to surrender its share of the fleet to its larger neighbour with which it had 'enjoyed' a history of subjugation and domination. The negotiations on and political tensions surrounding the BSF were worsened by the interventions made by naval leaders and nationalistic politicians. There were wider concerns, shared by the US and other NATO countries, that disputes between the two countries including those over the future of the BSF and related issues of sovereignty and over the transfer of Soviet nuclear weapons to Russia (finalised in 1994), could escalate into a violent crisis.

Ukraine wanted to avoid being bullied by Russia and wanted to maintain Ukrainian sovereignty over Sevastopol and the rest of Crimea at all costs. Kiev also wanted to avoid acquiring a fleet whose maintenance costs it could not afford. For Russia, the issue was one of acquiring the vessels of the BSF and the rights to base them, preferably on sovereign Russian territory. Russia needed the remains of the BSF as a primarily symbolic instrument to assert its power on its southern flank — specifically in respect of its relationship with Turkey, its influence in the Caucasus, and future Caspian oil flows.

After five years of diplomatic negotiations, Ukraine and Russia reached an agreement, signed by (the then) Ukrainian prime minister, Pavlo Lazarenko, and the Russian prime minister, Viktor Chernomyrdin, on 28 May 1997. In terms of the agreement:[15]

- The two nations would divide the BSF equally. However, Russia would buy back some of the more modern ships.
- Russia would lease the ports in and around Sevastopol for 20 years at $97.75 million annually. Russia would also credit Ukraine with $526 million for the use of part of the fleet, as well as $200 million for the 1992 transfer of Ukraine's nuclear arsenal to Russia. The payments would go toward reducing Ukraine's $3 billion debt to Russia — most of which was owed to the Russian gas company, Gazprom.

---

[15] See Felgenhauer T, 'Ukraine, Russia, and the Black Sea Fleet Accords', *Woodrow Wilson School Case Study 2/99,* on *http://www.wws.princeton.edu /~cases/papers/Ukraine.html.* For a discussion on more recent bilateral events, see Sherr J, 'A new storm over the Black Sea Fleet', on *http://www.eaf.org/papers/blacksea.htm*

- The legal status of Crimea (and Sevastopol) was confirmed as a sovereign part of Ukraine.

Thus Russia ultimately received four-fifths of the BSF's warships, while Ukraine received about half of the facilities. As a result of this agreement, the armaments and equipment of the Coastal Defence Forces and Naval Infantry assigned to the Russian Federation were withdrawn from Ukraine.

Today, the Russian-controlled Black Sea Fleet is based on Ukraine's Crimean peninsula. Headquartered at Sevastopol and based in the myriad of natural harbours in the area, it has an additional home-port in Odessa. However, when Ukraine demanded the division of the BSF, Russia was forced to begin construction of a new naval base near Novorossiisk. In spite of cuts, as of 1999, the Russian Black Sea Fleet remained an imposing force with 20,000 servicemen, 250 warships, over 100 armoured vehicles, numerous fixed- and rotary-wing aircraft, and artillery.

Today, the Ukrainian navy comprises 30 fighting ships and 70 auxiliary vessels. However, so many are of dubious serviceability that only 2–10 vessels are deemed to be operational by foreign military observers. Ukrainian naval bases are situated at Odessa, Ochakov, Chernomorskoe, Novoozernii and Feodosia. The main base of the Ukrainian navy is also in Sevastopol.

The rhetoric on the shipbuilding industry ...

The Ukrainian shipbuilding industry is currently billed as the third largest in Europe, after Germany and Poland. According to *Ukrspetsexport*, the state armaments export company,[16]

> Shipbuilding enterprises of Ukraine are specialised in building of cruisers, submarines, tankers, frontier guard and custom ships, salvage boats, trawlers, scientific and search ships and refrigerator ships. Shipbuilding engineering production complexes produce the items of ships and general purpose machine building. The capacities of Ukrainian enterprises make it possible to realise the repair of ships of any type including submarines.

Although, on paper, the Ukrainian shipbuilding industry appears to have high capacity levels, there have been major changes in the industry since Soviet times and these have left the industry in a state of flux and upheaval from which it is only slowly emerging today.

In 1998, shipbuilding was legislatively defined as a 'priority branch' of the Ukrainian economy.[17] During that year, eleven 'acts, decisions and separate orders' were passed by the Cabinet of Ministers concerning the stabilisation of the situation in the shipbuilding industry. In accordance with the law of Ukraine 'On State Support of Shipbuilding Industry', the Cabinet of Ministers Act 1471 of 21 September 1998 entitled 'On measures of State Support to the Shipbuilding Industry' approved a mechanism giving state guarantees for shipbuilding enterprises 'concerning returns of advance payments and credits to foreign ship purchasers'. In other words, for the first time, shipyards were given the opportunity to draw foreign credits for building ships under state guarantees. This measure allowed shipbuilding enterprises to restructure their $13 million state debt. They were also exempted from paying property taxes, import customs duties, VAT on operations and design-construction work, and duties on materials used for building vessels.

---

[16] See *http://use-weapon.astral.kiev.ua/ship.html.*

[17] See *http://www.uports.odessa.ua/SHIPPING/3/shipbuilding_1.htm.*

In order to create more profitable conditions, a re-structuring of state shipbuilding enterprises was embarked upon in 1998. This has been accompanied by large-scale layoffs of personnel. Today, the Ukrainian shipbuilding industry employs 60,000 personnel, down from a peak of an estimated 200,000 employees during the Soviet era.

... and the reality

Currently the shipbuilding industry is centred in thirteen yards in six centres: Feodosia, Kerch, Kherson, Kiev, Nikolaev and Sevastapol. All of these have been privatised (into what Ukrainians describe as 'open-type joint stock companies' involving between 20–100% private investment) with the exception of *Kherson, Palladia* and *61 Communards*. Shares in *Black Sea Shipyards* and *More* have also not yet been sold.

There are also seven 'sea instrument-building' plants, three electrical-assembly plants, and 23 research institutes and design bureaux.

During the Soviet period, between 60–70% of orders originated from the government, with 85% of vessels built for the military. Today, 93% of vessels produced are for export markets, with customers from Russia, Turkmenistan, The Gambia, Denmark, Norway, Holland, Malta and Greece.

Feodosia

More shipyard in Feodosia, Crimea, was established in 1938 and specialises in the construction of light alloy high-speed boats including hovercrafts and hydrofoils. Many of the hydrofoils built during the Soviet era were sold to Greece, Vietnam, Canada and Holland.

Recently, the yard has reportedly:

- Completed the construction of two Olympia-type passenger hydrofoils, the type which has successfully plied the Helsinki–Tallinn route since the early 1990s.
- Signed a contract with a Dutch concern — Coennexxion — in October 2001, for the construction of three Voskhod-2MFFF high-speed passenger hydrofoils.
- Delivered and is completing a $97 million order for two Zubr-type hovercraft landing vessels for the Greek navy.
- Dispatched the first vessel of an order of ten eight-tonne and ten 40-tonne patrol boats to Turkmenistan in May 2002.[18]

Kerch

During the Soviet era, the *Zaliv (B.Ye. Butoma Kamysh-Burun)* yard built Krivak-class destroyers.[19] This ceased with the dissolution of the Soviet Union. Located in Kerch, in Eastern Crimea, today this yard specialises in tankers of up to 80,000 dead weight tonnage (dwt). The largest ship constructed is a 150,000 dwt tanker.

In the late 1990s, *Zaliv* built three tankers for a Greek customer, and two more are planned. Since 1996, the yard has been co-operating with Ihda Shipbuilding Corporation (Holland). This programme, which involved the construction of eight vessels with a total tonnage of 40,000 tonnes over two years concluded in 2001. In the same year *Zaliv* completed contracts for the construction of a drilling platform for the state-owned JSC Chernomor/NaftoGaz (Crimea), and for four asphalt tankers for a Swedish contractor. These contracts increased production by over 70% as compared to 2000.

In mid-2000, Brinkfordt Yards Ltd purchased a 25.5% stake in *Zaliv* for $1.2 million. Today Brinkfordt controls 54.09% of *Zaliv*.

---

[18] *UNIAN MIC*, 10–16 June 2002, p.10.

[19] See *http://www.fas.org/nuke/guide/russia/industry/zaliv.htm.*

Kherson

Since its establishment in 1951, *VAT Kherson Shipyard* has focused exclusively on non-military vessels and is the only yard to do so. It has built more than 300 vessels, including 100 in the Commonwealth of Independent States (CIS) countries and more than 100 others for export. In 1998, the yard constructed a food transport for Norden of Norway and an Arctic mobile drilling platform for Russia's Gazprom.[20]After two years of inactivity at the shipyard two 5,000dwt vessels were delivered to Prestige Shipping Management of Malta in 2000.

Pallada Shipyards, which focused its activities on the construction of 'concrete floating yachts', was established out of *VAT Kherson.*

Kiev

There are two yards in Kiev.

The *Leninskaya Kuznitsa* yard, created in 1862, resumed production in 1998 on the basis of an intergovernmental agreement between Ukraine and Russia for the construction of Russian fishing trawlers. It provided three type-502 trawlers to the Russian Rverniy Promysel concern as part of Ukraine's debt-reduction programme with Russia's Gazprom. In 1999, it launched the first trawler of the new 12-800 series, and is currently negotiating with Russia's Severniy Promysel for the construction of refrigerator trawlers. In June 2001, the yard also laid down the hull for a 3,000dwt dry-cargo vessel ordered by Damen Shipyards, and in October 2001 delivered a similar vessel for Schiffswerft Schlomer GmbH and Co KG.

---

[20] The Coral Design Bureau in Sevastopol specialises in the design of such platforms.

Like *Leninskaya Kuznitsa*, the privatised *Kiev Shipbuilding & Shiprepair* yard has specialised only in civilian vessels. It is functioning steadily, building river–sea type vessels for Gazprom.

In June 2002, there was an estimated 18 months of orders for the two Kiev yards.

Nikolaev/ Mykolaiv

Nikolaev,[21] a large administrative, industrial, and cultural centre of Ukraine in the Mykolaiv administrative region (*oblast*), is the centre of Ukraine's shipbuilding industry. With a population of 600,000 it is situated in the southeast of Europe, 69 km from the Black Sea to which it is linked by the Southern Buh and the Ingul rivers. As noted above, more then 55% of Ukraine's shipbuilding capacity is concentrated in this region, including three of the largest factories and the general headquarters of the Ukrainian Shipbuilding Corporation. There are six yards in the region.

Established in Nikolaev in 1788, the history of the *61 Communards (Kommunara)* shipbuilding plant[22] is closely linked with the history of the Black Sea navy. The yard was established under the title 'Admiralty Works' in 1788 — a year before Nikolaev itself — and was the result of the need to strengthen the southern frontiers of the Russian empire and create a strong navy. From 1931 (when it was named after the *61 Communards*), the yard constructed torpedo-boat naval destroyers; destroyers and submarines; and supply vessels. It is claimed that about one-third of the former Soviet navy was constructed at the yard.

61 Communards is the most modern and technically equipped shipyard in Ukraine, with a total of 286 industrial buildings and 165

---

[21] See *http://www.globalsecurity.org/wmd/world/russia/facility/nikolaev.htm.*

[22] See *http://www.fas.org/nuke/guide/russia/industry/61communards.htm.*

industrial structures housed in a production area of 125.5 thousand square meters. The length of the outfitting quays, on the banks of the Ingul River, totals 1,248 meters. The shipyard is able to build contemporary vessels of all types with a hull weight of up to 28,000 tonnes. Hull construction takes place on three building berths, and the partial installation and mounting of equipment and machinery can be managed simultaneously.[23]

In July 1999, the shipyard finished repairing the strike missile cruiser *Moscow* and delivered it to Russia. In April 1999, the outfitting work on the flagship of Ukrainian navy, the missile cruiser *Ukraine* (formerly the *Admiral Lubov*) began, although its future currently remains undecided.[24] However, the yard's focus today is on commercial rather than naval vessels.

Transport refrigerator ships are a technical speciality of *61 Communards*. This specialisation began with the construction of the *Siberia*. The experience gained from the *Siberia* has allowed the shipyard to increase production of a new series of refrigerator ships, used not only for the transportation of frozen fish products, but also as tankers. Under the supervision of the German Lloyd Werft Shipyards of Bremerhaven, the yard has recently built 14 refrigerator

---

[23] This is a relatively modern works. In 1938, building berth (No.3) was built. After its reconstruction in 1986, the yard was able to launch vessels of up to 28,000 tonnes. The machine-fitting and assembly-outfitting workshops were built in 1970; the outfitting wharf in 1986; the floating dock in 1987; the power network and two open building berths (220x26 meters each) in 1987; and the engineering workshop in 1988.

[24] The cruiser may be sold at a cost of approximately $350 million to Russia, India or China. In the case of the former the sale would offset existing debts and in the case of the latter two countries the sale would bring about foreign exchange earnings. The cruiser is, however, of dubious serviceability. The ship was originally laid down in 1984 and has been stored in a partially completed state since its launching in 1990. For more than ten years the hull was not examined and its equipment was not maintained. The weapons systems were developed in the early 1970s and were produced in the late 1980s. See 'The Ukrainian military shipbuilding: realities and prospects', *Defence Express*, 1, 2, January 2002, pp.5–7.

ships with capacities of between 261,000–500,000 cubic feet for the Greek Laskaridis Shipping Co Ltd. Seven refrigerator ships were also built in a $100 million order for Ukrainian–Greek enterprise *Yugreftransflot-Lavinia. 61 Communards* has also manufactured the hulls of three floating hotels for a Danish firm.

The second of the shipyards, the *Black Sea Shipyard* of Mykolaiv, was established in 1897 and used to specialise in the production of aircraft carriers. With the largest slipway in Eastern Europe and Russia, the yard launched a 45,000dwt tanker for the Greek Avin firm in 2001, the sixth ship in a series. A contract is currently being negotiated for the construction of a series of an additional nine ships of 100,000dwt. In addition to various tug orders, the yard is currently negotiating with a Norwegian concern to undertake the construction of a floating, semi-submersible drilling platform.

VAT Meridian Shipbuilding Wharf was set up in 1949 as a separate department of the *Black Sea Shipyard.* During the Soviet era it constructed 540 ships and submarines, notably trawlers and geological survey ships. With the collapse of its local market, *Meridian* has built barges for a Dutch client, although it has shifted the focus of its construction to small tankers and fishing vessels.

VAT Mykolaiv Small Tonnage Wharf was created in 1998 out of the *Black Sea Shipyard,* specialising in the design, repair and construction of small tonnage fishing and pleasure craft. With its main markets in Canada, Russia and Ukraine, the main focus is on yacht building. However, it is reportedly negotiating with Turkey on the construction of 12 high-speed hulls and with CIS customers to build 10 motorised yachts.

VAT Damen Shipyards Ocean of Mykolaiv, established in 1951, specialises in the construction of transport vessels (bulkers) up to 80,000dwt, but has recently also built tugs and barges. In October 2000, the Dutch Damen Shipyards Group purchased a 78% stake in the shipyard for $5.2 million. The plant was renamed *VAT Damen Shipyards Ocean* on 22 February 2001. Damen reportedly has an annual turnover of $1 billion and owns 36 shipyards worldwide including the Galats Shipyard in Rumania.

In June 2002, the yard had 27 ships on order, 14 of which were in production — enough to keep it busy for two years. As a result, the production volume leapt five-fold in 2001, and resulted in the yard making a profit for the first time in five years. In the same month, it was announced that Damen had commenced an $18 million modernisation programme at the yard, with the International Finance Corporation providing a $10 million loan and the Nederlandse Financierings-Maatschappj voop Onntwikkelingslande another $7 million.[25]

VAT Liman Shipyard, established in 1896, focuses on building and repairing small-tonnage vessels up to 800 tonnes, including refrigerator trawlers. The yard also builds and repairs sailing yachts, patrol boats and pilot vessels.

[25] See 'Ukraine's economic odyssey 2011', *Kyiv Weekly*, 21 June 2002.

Sevastapol

VAT Sevastopol Sea Plant, or *SevMorZavod,* was established in 1783 and specialises in commercial ship repairs, mainly for the Bulgarian and Greek markets. Currently plans are afoot to create a Russian–Ukrainian joint venture at the plant. In 2000, the company repaired 44 vessels and 37 were repaired in the first nine months of 2001. However, sales fell from $200,000 in 1999 to $150,000 the following year, although the sale of stevedoring (that is, the loading and unloading of ships) and other services increased from $2 million in 2000 to just under $3 million in the first nine months of 2001. The SigmaBleyzer portfolio investment fund has purchased a 47.98% stake in *Sevastapol Sea Plant.*

The shipbuilding industry: *Quo Vadis*?

The financial and economic state of almost every yard remains difficult, with a lack of turnover and increasing indebtedness. According to the head of the shipbuilding department in the Ministry of Industrial Policies of Ukraine, Petr Korotky:

> In the years 1997–98 the yards signed some new profitable contracts costing around US$500 million ... yet their coming into force is threatened by national and foreign banks' reluctance to participate in shipbuilding, which is affected by the difficult financial and economic state of the yards. They are working at no more than 30% of their capacity. The lack of a sufficient workload adversely affects their economic activities. There is an urgent need to substantially improve world-marketing activities, to search for new orders abroad and within the country. The problem of new building for Ukrainian ship-owners is very acute as, in our estimation, by 2005 most of Ukrainian Merchant Marine tonnage working today will be demolished for scrape [sic].

However, there are signs that the worst is over and that a slow process of recovery is beginning, although this may ultimately have to include some yard closures, given the reduced demand for ships both locally and internationally and the impossibility of a return to a Soviet-style state subsidised system.

The government believes that export contracts and Ukrainian ship-owners' orders could provide jobs for almost 45,000 yard workers and 200,000 of those working in related industries. The industry aims to play its part by reducing its own cost structures and by improving profitability through better management, the re-structuring of enterprises, and the liquidation of state debt, thereby raising production volumes to 'gradually get through the crisis in shipbuilding and turn the industry into one of leading spheres of economy in Ukraine'.

From the total standstill in 1989, shipbuilding volumes totalled $175 million in 2000, a 31% increase over 1999, and rose again by nearly 20% in 2001 to over $250 million. The best-performing yards in 2002 were *Zaliv, Leninskaya Kuznitsa, SevMorZavod, Damen, VAT Lyman* and *Mykolaiv Small Tonnage Wharf*.[26]

In summary, while it possesses considerable infrastructure and technical prowess and maintained an impressive construction output during the Soviet era, Ukraine's shipbuilding industry is still grappling with the challenges of market economics in dealing with a decade-long period of decline. It has also had to deal with the global challenge of shrinking demand for ships. This demand has been particularly evident in Europe given relative cost structures.

Overall recovery and increased foreign investment will hinge partly on the implementation of Western technical and management standards and norms, and on increased international and local demand. Major problems remain, however, including: a drop in workload and output; increased indebtedness to the Ukrainian state; and arrears in wage payments and consequent work stoppages.

[26] 'Its all in the hull', *Eastern Economist*, 11–17 February 2002.

Although the Ukrainian merchant fleet remains substantial (156 ships over 1,000 gross registered tonnage (grt), totalling 862,690 grt and including nine bulk carriers, 105 cargo carriers, four container vessels, 14 petroleum tankers and 11 passenger vessels), given the poor state of the domestic economy, the future health of the industry will depend on its ability to source export orders. This, in turn, hinges on the impression of Ukraine as a reliable business and international partner, an impression not assisted by the current shenanigans in Ukraine's domestic politics and economics, and, for South Africa, by the mixed experience it had with the purchase of the *SAS Outeniqua*.

The South African and African Connection

Africa has little place in Ukraine's foreign policy. Despite a political push to improve relations at the start of the 21st century,[27] South African ties with Ukraine have been limited by a number of factors. These include the overall change in Ukrainian relations with the African National Congress (ANC) — with which it had enjoyed a close relationship during the anti-apartheid struggle, including the provision of extensive training facilities[28] — and the limited business opportunities available.

The relationship with Ukraine was normalised in April 1992. South Africa established its embassy in Kiev in October 1992 and Ukraine established its embassy in Pretoria in 1995.[29]

---

[27] In September 2000, the South African deputy president, Jacob Zuma, paid an official visit to Ukraine, the Czech Republic and Bulgaria to strengthen bilateral relations with countries in Central and Eastern Europe.

[28] Many ANC recruits were trained in Odessa, including Joe Modise and Ronnie Kasrila. See Kasrils R, *Armed and Dangerous: My Undercover Struggle Against Apartheid*. Oxford: Heinemann, 1993, particularly pp.81–92.

[29] Ukrainian embassy in Pretoria, PO Box 57291, Arcadia 0007, Tel: (012) 460-1946, Fax: (012) 460-1944; South African embassy in Kiev, PO Box 7, Central Post Office, 22 Kreshchatik Street, Tel: (09-38044) 227-7172/4451; 227-3789/3622, Fax: (09-38044) 220-7206, e-mail *saemb@utel.net.ua*.

South African–Ukrainian trade ties (R million: nominal values)						
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
South African imports	23.9	46.5	44.4	80.8	28.1	84.1
South African exports	16.5	45.0	37.9	7.8	11.3	9.1

Following the fall of the Berlin Wall and the dissolution of the Soviet Union, the old South African Defence Force (SADF) was quick off the mark to establish contacts with their Russian and Ukrainian counterparts. On 14 July 1995, South Africa's minister of defence, Joe Modise, and the Russian minister of defence, Pavel Grachev, signed a military–technical co-operation agreement, including the prospect of arms sales; joint research; training and services; and the operation, repair and modernisation of armaments and matériel.[30] Prior to this agreement, the SADF had purchased the *Juvent* (later re-named the *SAS Outeniqua*). The vessel, a 21,000 tonne ice-breaker, was purchased in 1993 at a cost of R41 million ($12 million), approximately one-third of the cost of building a similar vessel in South Africa.[31] Today the ship is seen as 'useful' by members of the South African National Defence Force (SANDF), particularly given its roll-on-roll-off capabilities, although serious machinery logistical problems have been encountered. These relate to difficulties in sourcing spares from in and around the former Soviet Union, as suppliers had gone into liquidation and owed money to the banks. The South Africans have found that they could not pay the bank, but had to physically take the money to the supplier. There have also been problems with identifying spares given the absence of Western-type systems and schedules.

In Africa, Ukraine has allegedly been one of the major suppliers of weapons' systems, with clients allegedly including Angola (both

[30] See 'Tied up with Russia', *Salut*, September 1995, p.10.

[31] See 'Lady of reknown bows to Ukrainian ice-breaker', *Paratus*, April 1993. The *Juvent's* sister ship remains for sale in the *Kherson* yard.

União Naçional para a Independêçia Total de Angola (UNITA) and the *Movimento Popular de Libertaçao de Angola* (MPLA) government), Sierra Leone, the Democratic Republic of Congo (DRC), Burundi, Rwanda, Zambia, the Ivory Coast and Ethiopia.[32] The Stockholm International Peace Research Institute estimated that, in 1999, Ukrainian arms exports to Africa totalled $150 million. Ukraine was the seventh largest arms exporter globally between 1996–2000, with aggregate sales of $2 billion ($500 million in 2001[33]). Concerns about the impact of Ukraine's arms export policy to Africa — which does not have stated 'ethical' guidelines, as is the case with South Africa — have been heightened by recent reports of Ukraine's willingness to export 8,000 redundant military items 'free-of-charge' to its foreign partners. According to a classified parliamentary investigation, Ukraine also cannot account for a $50 billion loss in its armaments inventory since 1991. These trends, combined with an emergent nexus between private arms dealers, government elements, and organised crime groupings, have potentially serious implications for Africa (particularly given the continent's weak control over end-user certificates and its lax customs controls) and for the implementation of the New Partnership for Africa's Development. As a result, the conclusion of bilateral agreements

[32] It reportedly sold three *Kolchuga* passive, stealth detection-capable radar systems to Ethiopia in a $100 million deal. However, it is rumoured that these items were intended for Iraq and that Ethiopia was merely a conduit. This charge has been strenuously denied by the government despite the existence of tape-recordings made by a former security guard, Major Mykola Melnichenko, capturing conversations between President Kuchma and Valerij Malev, the director-general of the state arms export company, Ukrpetsexport, confirming the deal. Malev died in 2002 in a car accident.

[33] See *UNIAM MIC*, 10–16 June 2002. A large portion of these sales took the form of the sale of 350 T-84 tanks to Pakistan. In 2002, the Kharkiv-based *Malyshev* plant signed a deal worth $100 million with Pakistan for the supply of 285 engines-transmissions for Pakistan's Al-Khalid tanks. Iran is another major arms partner, receiving tanks (1996) and Antonov aircraft. See Feldman S & Y Shapir (eds.), *The Middle East Military Balance 2000-2001*. Tel Aviv/Cambridge: Jafee Centre for Strategic Studies/The MIT Press, 2001, p.131.

with Ukraine that strengthen necessary controls has become an urgent priority.

Ukrainian officials see a number of areas for increasing trade and investment ties with South Africa, including:

- *Shipbuilding.*
- *Mining.*

  Ukraine has an estimated 5% of the world's mineral reserves, including the largest supply of titanium; the third-largest deposit of iron-ore; 30% of the world's manganese; and significant deposits of gold, diamonds, mercury, uranium and nickel. There is a diamond-cutting plant at Vinnytsia that employs 1,000 personnel and is reportedly utilising Israeli computer diamond-cutting technology.
- *Space and satellite technology.*
- *Building materials* and *technology exchange.*
- *Road and rail technology.*
- *Agricultural equipment.*
- *Pharmaceuticals and medicine.*
- There are more than 600 Ukrainian doctors in Libya.
- *Education* (both for teacher exchanges and for students).
- There are more than 18,000 foreign students in Ukraine, including many from Africa.

As has been highlighted above, a number of key problems exist in improving the relationship, however. These include, in particular:

- The extreme distances involved, and the consequently high cost of transport.
- Perceptions of quality. In the South African steel market, for example, Ukrainian products are cheaper,[34] although their quality is generally thought to be inferior. The seventh-largest steel

---

[34] According to a South African scaffolding manufacturer interviewed by the author, the selling price of Ukrainian flat bar is around 20% cheaper per tonne than South African steel, although it is apparently of inferior quality.

producer globally, the US, Canada and Russia have accused Ukraine of dumping, and all have placed restrictions on Ukrainian exports.

- Ukraine's relationship with Africa beyond South Africa is partly limited by the extent of its diplomatic representation, with just three missions on the continent — South Africa, Guinea (where there are Ukrainian bauxite interests) and Nigeria. There are six African missions in Kiev — Algeria, Egypt, Libya, Morocco, Nigeria and South Africa.
- The difficult and 'still murky' business environment that exists, both in trading with and investing in Ukraine. This includes concerns over intellectual property rights and concerns over the health of the legal system and the transparency of government procedures and decision-making. Indeed, the US has singled out Ukraine as the worst international offender with regards to the infringement of intellectual property rights and has designated Ukraine as a priority country in respect of piracy.
- Related to the above, a 'Soviet-style' bureaucratic mentality and oligarchic government–business relationship continues to exist.

It is for these reasons that various attempts to improve the business climate between the two countries have largely come to naught. Unsuccessful schemes include initiatives by South African Breweries and various arms projects. Ukraine has recently bid for a SANDF requirement for a Ground-Based Air Defence System, although this and other collaboration has apparently been rejected on the basis that Ukraine's defence industry and its technology is 'fundamentally so far away from what we are interested in' and there is accordingly not much scope for complementarity.[35] Recently, an ambitious scheme to utilise the Overberg Test Site for the launch of satellites under the *Mayak Transport Space System* was stillborn. More positively, there has been some increase in tourism, with more than 5,000 Ukrainians now visiting South Africa annually.

---

[35] Discussion, Denel official, 3 June 2002.

In the circumstances there has to be some doubt about the benefit of retaining a diplomatic mission in Ukraine. Although an important point of entry for South African-based firms into the Ukrainian market, its future is, however, likely to be determined more by the need to limit the possible damage caused by transnational activities including arms flows than by the potential economic benefits. In the short term, the embassy's role will probably focus on the need to conclude key bilateral agreements including those on avoiding double taxation; protecting investments; the mutual protection of classified information; the management of technical security in the mining industry, accident rescue operations and high radiation areas; crime combating; and state security.[36]

---

[36] There are signed bilateral agreements on: Agriculture (1992), Military and Technical (July 1995), Defence Co-operation (July 1995), Science and Technology (November 1998), Trade (November 1998), and Culture (November 1998).

Conclusion

The Ukrainian shipbuilding industry reflects wider economic and political challenges. As part of the former Soviet Union, Ukraine produced 25% of all goods, from televisions to missiles. But the 1990s, a decade of transformation and adjustment, has not been easy for the Ukrainians. Problems in developing and deepening the bilateral relationship between South Africa and Ukraine reflects the difficulties experienced in changing Ukraine from a centralised, command economy to a free market system, and parallels the enormous economic uncertainty and decline experienced since 1990.

Nonetheless there is considerable capacity in the shipbuilding industry. However, this sector's ability to compete globally rests on the degree to which Western management practices and technical standards can be implemented. Dealing with those shipyards that have made this shift through the establishment of joint ventures with Western firms (such as Damen), will most likely be the easiest method of doing business in this sector.

Ukraine remains a country blessed with abundant natural resources and a full range of strategic mineral reserves, but has yet to make, in the words of one diplomat, 'the paradigm shift to competitiveness and comparative advantage'. There have been small, notable improvements, particularly given the high growth rates achieved in 2000–01. However, these must be viewed against the backdrop of a 60% GDP contraction overall in the 1990s. In the circumstances, until there is a change of government — and more importantly, a change in the Ukrainian mindset and business practices — Ukraine will remain a destination where angels should, for good reason, fear to tread.

The South African Institute of International Affairs
PO Box 31596 Braamfontein 2017 South Africa
Jan Smuts House, East Campus,
University of the Witwatersrand
E-mail: saiiagen@global.co.za
Tel: (+27 11) 339-2021
Fax: (+27 11) 339-2154