

НАЦІОНАЛЬНИЙ УНІВЕРСИТЕТ ІМ. ТАРАСА ШЕВЧЕНКА

Ukraine's Economy and Cycle Industry

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Ukraine has a current population of 47 million. Although the country's population was 52 million in 1994, many people have left to look for work elsewhere in such countries as Poland, Hungary, Russia, Spain, Italy, Germany, and even Canada. More than five million Ukrainians are thought to have left the country. The most emigrants have left from Lvov, which is only 60 km from Poland. But since the vast majority of Ukrainians abroad have kept



▲ It took 36 years to complete st. Vladimir Cathedral. Many important ceremonies have taken place here.



▲ Victory Square in Kyiv was built in 1991 to celebrate independence, and has become a symbol of how much Ukrainians treasure their freedom. It is a popular spot for cyclists.

homes in Ukraine, it is hard to pin down the country's actual population.

Political, Economic, and Social Conditions

Ukraine has an area of over 603,000 km², and is the third largest member of the Commonwealth of Independent States, after Russia and Kazakhstan. Ukraine was successively ruled by Poland, Lithuania, and Russia. It declared its independence from the former Soviet Union on August 24, 1992 and only ratified its constitution and elected a president for the first time after independence on June 28, 1996.

Many Ukrainians attest that last year's H1N1 outbreak was not as severe as they were led to believe. The public generally feels that drug companies colluded with the government to cause a state of public alarm, which caused people to rush to buy drugs, and allowed the drug companies to earn outrageous profits. This reveals some Ukrainians' distrust in the government, and the belief of many that independence did more to benefit powerful individuals than the public as a whole. Faces in the government are constantly changing, and politicians engage in endless bickering. Bureaucrats are thought to be widely corrupt, and by some



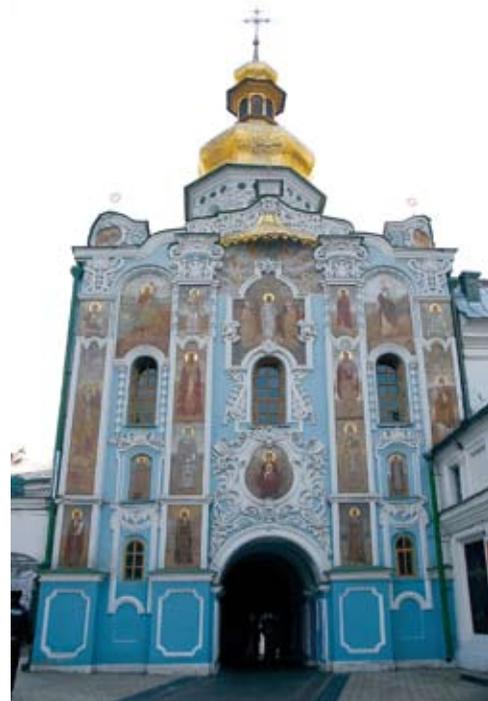
▲ Velotrade Marketing Mgr. Maxxi Ivanov is not optimistic about the future.



▲ Ardis is the largest bike manufacturer in Ukraine. Purchasing manager Artur Nychyk expressed concern about the country's government.

accounts Ukraine has the world's third-worst corruption. Because of inadequate laws, lack of enforcement, and limited freedom, Ukraine has been unable to join the European Union.

Even though a new president was elected last year, most people feel that there has been no improvement, and things have



▲ The wall paintings on Kyiv's Holy Trinity Church always attract a lot of tourists.



▲ Alfa Toys represents many brands, and displayed Author's Kona bicycles at the show. From left: chepikov Alexsey, Konoralenko Andrey, and Vitaliy Balan.



▲ ZIP Bicycle's Winner sold about 20,000 units last year. Shown are Aleksandr Evonovskyy (far left); Vladimir Paliy (second right); and Aleksandr Evonovskyy, Jr. (far right).

in fact gotten even worse. The general public feels that the government just does what it wants, and doesn't take the people's will into consideration. Some people, however, believe that the government just needs time to get on the right track. In spite of the country's poor governance, Ukrainians are generally very warm-hearted, and cherish their hard-won democratic freedom. As a result, despite their dissatisfaction with government policy, citizens

are mostly just trying to better their lives, and it is unlikely that the country will have an uprising like those in Egypt and Libya.

Although some feel that Ukrainians are cool and reserved, they are much warmer than Russians. The leading religion is Eastern Orthodoxy (more than 78%). Ukrainians are more closed-minded than Russians, but the level of education is high. The divorce rate is over 50%, and many unmarried couples live

together. After divorce, the father must pay any children's education fees, which are equivalent to 25% of the average salary for one child and 50% for two children.

During the first eight years after winning independence from the former Soviet Union in 1992, Ukraine's economy shrank for eight years, and did not begin to grow until the second half of 1999. The country's economic growth rate has ranged from 5.2% to 7.1% in recent years. While inflation has mostly stayed around 12.8%, it surged to 10,000% in 1993. Monthly salaries in major cities such as Kyiv range from US\$800 to US\$1200 (US\$500 for blue-collar workers, US\$1,000 for white-collar workers, and over US\$1,000 for service workers and managers). The Ukrainian currency is the hryvnia (UAH). Because the hryvnia is closely pegged to the dollar, a weak dollar benefits Ukrainian exporters, but is unbeneficial to importers. Foreign currency loans increased



▲ Arkus displayed Wheeler bikes.



▲ Azimut has absented Velo Bike show for many years. President Jergey Sinitsin imports large numbers of bicycles and components from the Tianjin area. In recent years Azimut has begun importing motorcycles from China as well.



▲ Velolubitel GM Vitaliy Nikolaichuk and his wife.



▲ Velostreet GM Igor Kuzmin.



▲ Velolux President Valentin Pupean.

dramatically starting in 2006, and now account for 50% of all loans. The underground economy is thriving; L/Cs are seldom used, and T/Ts are generally preferred.

Major Cities

Manufacturing accounts for 75% of Ukraine's total industrial output. While Ukraine is an energy producer, it is only around 25% self-sufficient in energy, and must depend on imports from Russia for the remainder of its energy needs. Sixty-three percent of the Ukrainian population live in urban areas; the leading cities are Kyiv, Kharkov, Donetsk, Dnipropetrovsk, Odessa, and Zaporzhie.

Kyiv is the capital city and main political and commercial center. It has 1,500 years of history, and contains many bicycle firms, including Ardis, Velostreet, MTB Ukraine, Paul Lange, Velolux, Velolubitel, Veloshok, Velosprint, Alfa Toys, and Magel-

lan.

Ukraine's second-largest city, Kharkov, has a population of approximately 1.6 million. It was the capital of Ukraine prior to World War II, and currently contains the two bicycle assembly firms Velotrade and Zip Bicycle (Winner). Both of these companies are importers; Velotrade also assembles bicycles, and Zip imports bicycles and assembles its own wheels.

Donetsk is the center of Ukraine's coal-mining industry. Coal is Ukraine's main mineral resource, but the country's output has recently been declining steadily. Donetsk has a population of over 1.5 million. It is also home to bicycle importer, Leader Bike.

Steel is Ukraine's leading export product, and is also the country's main source of foreign exchange. Dnepropetrovsk is the main steel-producing area, and has a population of around 1.4 million. Local bicycle companies



▲ Leader Bike changed its strategy after the recent economic recession, and launched more competitive products to meet consumer demands. Shown are Vladislav Eubenko(left) and Vladimir Proshkiv(right).



▲ Importer Tatu chose red as their booth background for greater visual appeal, left is GM.



▲ Circus acts are very popular in Ukraine, especially among children.



▲ There weren't many exhibitors displaying shoes and bags. Velotramp and Megella sponsored a competition.



▲ An aisle view.

include X-Brothers, which is a distributor for Santa Cruz and Yanato Bike.

Odessa, the country's famous seaport, has a population of over 1.2 million. Most containers of bicycles and parts are unloaded in this city Azimut, the bicycle importer Benneto (Starter), and Annamir are all located in Odessa. Close to one-half of all Ukrainian bicycles and motorcycles arrive through this port.



▲ It is necessary to negotiate a fare before entering a taxi in Ukraine, much like in Russia.

Bicycle Import Tariffs

Apart from Odessa, other major Ukrainian ports include Ilchivsk (on the Black Sea) and Pivdenny (near the Black Sea). Industry and agriculture are the two leading economic activities in Ukraine, and coal, metallurgy, steel, machinery, chemicals, and cane sugar are the chief exports. Ukraine has the world's largest reserves of manganese, and accounted for 30% of the former Soviet Union's manganese output. The tariff on imported whole bicycles is 20% and the VAT is also 20% for bicycles and 10% for parts. According to Sportsystem President Veladymyr Tkhoruk, the tariff rates on parts and whole bicycles from Taiwan and China are the same.

License Tax Affects Motorcycle Sales

Motorcycle sales surged during the ok few years, and

many bicycle firms started selling motorcycles. For instance, Azimut imported a large number of motorcycles. However, because of the large number of motorcycle accidents, the Ukraine government instituted a license tax last year in order to control sales, and many companies' sales volume has plummeted by 40-80%. While e-bike sales are feeble, and there are many restrictions on them, dealers feel that the slump in motorcycle sales will inevitably lead to growth in e-bike sales.



▲ Volta imports e-bikes primarily from China. Volta's GM said that the average unit price in July 2010 was US\$100.



▲ Orbea bikes were displayed by their distributor.



▲ BBB is the distributor for Velostreet.

Confidence in Recovery

Due to the effects of the global recession last year, and an outbreak of H1N1 in the capital city of Kyiv, attendance at the Velo Bike trade show last year was greatly reduced, and there were only 43 vendors. The number of vendors rose to 48 in 2011 but most of these were local companies and agents; exhibitors from Taiwan and China were notably absent.

As far as the Ukrainian bi-

cycle industry is concerned, most firms have already escaped the worst effects of the recession, and are confident that the economy will recover. Although there were only 48 exhibitors at the Velo Bike show, more than 80% of the local industry leaders were there, including Shimano agent Paul Lange, Velostreet, Velotrade, Velolubitel, Arkus' Ukraine plant, Giant agent MTB Ukraine, Sport-system, Leader Bike, Tatu, Zip Bicycle, Cube, Ghost's agent, Volta, Author's agent, Colnago, and Stevens' agent. Business was brisk at the show, and bicycle competitions chiefly sponsored by Velotrade and Magellan garnered widespread publicity. On the other hand, the large firms Ardis, Azimut, Benneto, and Merida's agent were not present at the show.

More and more imported brands are appearing in Ukraine, and many brands entered the market for the first time at the

Velo Bike show. As a result, competition among importers has reached a feverish level. Since the hryvnia is closely pegged to the dollar, with an exchange rate of US\$1:5, and because local commodity prices are rising, there is a lot of competitive pressure. Furthermore, some importers are trying to establish brand names by drafting their own designs and outsourcing manufacturing to Taiwan. For instance, Sportssystem's Comanche brand bikes are made in Taiwan, and Cube plans to assemble imported bikes locally.

Big Gap between Rich and Poor

Approximately 1.1 million-1.3 million bicycles are sold in the Ukrainian market annually. Low-price models account for more than 80% of sales volume, and fetch prices of US\$100-US\$300. Higher-priced models



▲ Novatec is represented by Sportsystem. President Veladymyr Tkhoryk introduced Novatec hubs to his clients.



▲ The rep for Shimano's Ukraine agent Paul Lange said sales doubled last year.



▲ It was the first time at the show for Stevens and Colnago agent DRVE.



▲ Cube President Valdim Zelenko, right, with his son, Kostiya. Cube plans to assemble bikes in Ukraine in the future.

go for more than US\$500, and the most expensive bikes have price tags in excess of US\$1,000. The sales season extends from early April to the end of August. Bike shops spend the winter selling ski gear and other outdoor sports equipment.

Ukraine has a very high unemployment rate, which is officially 13% but widely thought to be even worse in reality because of the many people who survive on government welfare and are unwilling to work. Average monthly income is roughly US\$300-US\$500 nationwide, and US\$800-US\$1,000 in the capital city of Kyiv. The gap be-

tween rich and poor is enormous; however, an increasing number of people have the wherewithal to obtain high-quality, high-end bikes. During the height of the financial crisis, higher-price bikes suffered less than low-end models (high-end bikes sales dropped by roughly 30%, but low-end bikes sales dropped by over 50%).

Ukrainian taxes are high, and the VAT is a hefty 20%, which imposes a heavy burden on low-income citizens. The government laid plans at the end of last year to increase the tax rate to 30%, and although this proposal did not pass, it may be revived in July. Although most

bicycle firms expect this to be a good year, there are many unknowns, and business people can only hope for the best. The industry's development is inextricably linked with government policy. The import tariff rate on whole bicycles and parts is 10%.

Tips for Travelers to the Ukraine

The author reminds everyone visiting the Ukraine from Taiwan or southern China to bring a warm jacket on the plane, to keep from being chilled to the bone when leaving the plane and boarding a shuttle bus. To



▲ A view of one of the booths.



▲ Giant bikes were displayed by agent MTB.



▲ Arkus Ukraine President Yuri Stanislavovych (second left) said sales of children's bikes and sleds increased significantly.



▲ Cube President Valdim Zelenko, right, with his son, Kostiya. Cube plans to assemble bikes in Ukraine in the future.

ensure that no items are lost from luggage, airports in the Ukraine can seal baggage in plastic wrap; this service costs an average of US\$3-US\$4, depending on size and weight.

Because the time of this year's Velo Park in Russia overlapped with Velo Bike, and the author had to take a group of exhibitors to Moscow, the author was only able to visit Velo Bike

on the final day. In comparison with Ukraine's Velo Bike, Moscow's Velo Park was larger and more interesting, but didn't reveal as much industry cohesion as Velo Bike. Ukraine's bicycle industry has a high level of interaction, and the industry's culture is similar to that of Taiwan. Ukrainian industry has an admirable degree of solidarity. While there are currently no bicycle



▲ Sportsystem President Veladymyr Tkhoryk said that import tax is the same for both bicycles and components.



▲ Colnago and Stevens were displayed for the first time at Velo Bike by their agent DRVE. More and more brands are entering the Ukraine market.



▲ Representatives of Ghost's agent in Ukraine.

industry associations in Ukraine or Russia, the cycle industries in these countries could make great advances if such an organization were to be established.

2012 Show May be Moved to March

Ukraine is not as cold as Russia, but February may still be snowy. This year, the temperature mostly hovered around -10°C during January, and it got as cold as -20°C in February. On the other hand, the temperature hit a relatively balmy 15°C for three days in January. In general, there is a lot of variability in the climate. The weather gradually gets warmer starting in mid-March, which is why the show organizers plan to hold the show in early March next year. Besides offering possibly milder weather, the planned change also reflects the high booth rates in February, which had vendors pleading for a later show period.



▲ The wife of Megella's president.



◀▲ Many people wrap their luggage at the airport to avoid theft.



▲ The Velokiev Group booth attracted many young visitors.



▲ Fort is a Velotrade brand.



▲ Velolubitel displays products from Maxxis.