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When I want to tell someone about Ukraine's successes in response to persistent claims of corruption and chaos, I talk about the reform of Naftogaz of Ukraine, VAT refunds, about hundreds of kilometers of resurfaced roads, and about the lively growth of the IT sector.

Typically, I run into surprise and disbelief. And truthfully, I run into more disbelief with interlocutors in Ukraine than with those abroad. The challenges facing Ukraine today require not just hard work, but also deliberate, consistent communication. The real success stories that Ukraine has achieved in the last few years often remain little known within the country itself and not very clear to the outside world.

This very issue became the starting point for launching TRUMAN Report, a publication in which key players discuss the successes and problems in their areas, their businesses, and in the country as a whole. Our team wants to provide an independent platform for the opinions of those who support different points from the entire spectrum. State-owned and private companies, officials and experts all see these challenges from different sides and various angles. That's why we decided to use direct speech in this publication.

TRUMAN Agency engages in public affairs, so we can take advantage of our access to corporate leaders, heads of state agencies and insiders within Ukraine as well as opportunities to talk about the country's successes with investors, partners and colleagues beyond its borders.

Right now, we'd like to make our efforts more systematic. Twice a year, in autumn and spring, we will issue TRUMAN Report and gather speakers, clients and partners at a public event.

I would also like to address the TRUMAN Agency team, which put together this journal, and all the like-minded individuals who helped us with contacts, ideas, criticism and support: thanks friends, it's really cool!

A large, stylized handwritten signature in blue ink, appearing to read 'Ivan Vaneev'.

**Ivan Vaneev**  
**Founder, Managing Partner, TRUMAN Agency**  
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# FINANCE

## DEVELOPMENT OF BANKS, PLACEMENT OF EUROBONDS AND EXPECTING PRIVATIZATION

After a downturn, the Ukrainian economy is on an early stage of development. Investors are looking at Ukraine again, weighing the benefits and risks of investing in the real sector.

However, investors' attitudes towards Ukraine remain cautious. And the reason is not in military operations in the east. The bad reputation of the country is the lack of rule of law, excessive capital controls, corruption and bureaucracy.

The situation can be improved through liberalization of capital movements and the beginning of major privatization. The last factor will attract investors from around the world.

The banking sector demonstrates active development. Despite the crisis, over the past two years, most Ukrainian banks have modernized the approach to customer service, have introduced innovative technologies for the provision of additional services. However, the considerable problem, which continues to be emphasized by the business, is high cost of loan capital. The National Bank of Ukraine substantiates this with the need to target inflation, the instability of the financial system, and the lack of legislative protection for bank loans.

In Ukraine, the cleaning of the banking system is almost completed, it was possible to close most of the "schematic" financial institutions and free the financial sector from "junk" securities. The next step for the regulator will be to strengthen control over the non-bank financial services with a special emphasis on the activities of insurance companies. For a long time, these institutions were the source of unlawful financial schemes and served as instruments for withdrawing money from the country.

Ukraine has recently attracted considerable funds through the placement of Eurobonds. Experts are worried that a successful entry to free capital markets will slow down the implementation of reforms, which are a condition for obtaining another tranche from the IMF.

Meanwhile, Ukraine hopes to receive a tranche at the beginning of next year. So, reforms must continue in line with commitments made by the IMF. The only question is that the country is on the verge of regular elections, and the introduction of unpopular reforms in the pre-election period is likely to be suspended. Also, artificial restraint of the exchange rate cannot be excluded, as well as balancing the economic situation, so as not to disturb electoral moods.

Among those who shared their views on the state of the Ukrainian financial sector and its development forecasts are the CEO of Concorde Capital Igor Mazepa, former Minister of Economic Development and Trade of Ukraine, investor Aivaras Abromavichus, Deputy Governor of the National Bank of Ukraine Kateryna Rozhkova, partner of Kompan Consulting, Edinburgh Business School teacher Ivan Kompan, Director of the Monetary Policy Department of the National Bank of Ukraine Sergiy Nikolaychuk, Director of Investment Promotion Office Daniel Bilak, Deputy Director of Investment Promotion Office Petro Matiaszek, Senior Partner of KM Partners Alexander Minin, CEO of Kyiv Investment Agency Oleg Mistyuk, Managing Partner of Arzinger Timur Bondaryev and representatives of diplomatic missions of South Korea and China in Ukraine.

# PRIVATIZE IT ALL!



**Igor Mazepa**  
CEO Concorde Capital

**Today there is excessive state control over capital movements. How does it affect investment? Is the government interested in liberalization?**

The attitude of our officials is: come in – do not be afraid, go out – do not cry. Everyone is glad when the investor comes, but nobody is glad when they go out. Over the last four years there was a tendency to go out. By the beginning of 2017 the reaction of the National Bank was as expected – to tighten all the screw-nuts in terms of capital movements. To avoid escaping and speculation. In order not to have anything that could put pressure on hryvnia. But this is only on the part of the National Bank. For me it obvious that money will not flow in with such a policy. The money that the world now has in abundance... There will be no new funds until investors are sure that they can be withdrawn, collected and reinvested in any other place. And with no problems. Tightening the screw-nuts on the withdrawal of funds, the National Bank does not stimulate the entry of new money. Probably, according to their logic, the critical mass of money at the entrance should be greater than the output. Such a situation would become a good trigger for the National Bank and the government to weaken control and regulation of funds as much as possible.

**How realistic is that privatization will finally start?**

I do not believe in it myself, but there is hope that steps in this direction will be taken. The Law passed at first reading. Probably, it will pass the second one. The privatization of Oblenergo's and generating companies took place in August. Perhaps, in the first half of the next year things will move from dead point. But privatization requires something very big. The government must prove that there is a will and a desire to do so. I believe that everything needs to be privatized: Odessa Port Plant, Centrenergo, Oblenergo's, alcohol industry, engineering, Ukrzaliznytsia or its part, Naftogaz or its part – all!

**Sergiy Nikolaychuk**

*Director of Monetary Policy and Economic Analysis  
Department of the National Bank of Ukraine*

As far as capital liberalization is concerned, steps will be taken. But only when there are appropriate macroeconomic and financial conditions for this. The key ones are receiving a tranche from the IMF, further accumulation of international reserves, and a relatively stable situation on the foreign exchange market.

**Ivan Kompan**

*Partner of Kompan Consulting,  
a lecturer at the Edinburgh Business School*

I am not sure that today in the world of modern technology, Soviet industrial or even post-industrial monsters are interesting to anyone. But there are state-owned companies: Ukrzaliznytsya, Naftogaz, ports. Leaving them completely in state ownership is a disaster, it's wrong. They cannot be left in state ownership, when they are a source of corruption, funding of certain oligarchic and political groups. This needs to be changed.

**Is there such a probability in the next year or two?**

Yes, there is a chance. We already see that foreign investors bring the dollar, convert it into hryvnia. With hryvnia the buy sovereign bonds. The profitability there is 14-15%. And the yield on similar Eurobond risks is 5-6%. So the difference of 9-10% is a currency risk premium on which they expect to earn. Roughly speaking, investors expect that the devaluation will no longer exceed 10%.

**And how can you assess the actions taken by the National Bank to strengthen hryvnia over the last few years?**

It is very positive that the National Bank influenced the strengthening of hryvnia mostly by administrative methods. I almost did not see interventions to keep up the course. For me, as a businessman, the only criticism may be that it has not weakened currency control. I say so, because I'm on the other side of the barricades – in business. But if I were a functionary of the National Bank, I would understand the logic exactly from this side. The fracture will happen only when there are more people willing to enter the market than those who want to get out of it. This is an achievable goal. A stock market, privatization can become a trigger ...

**Is there a difference between which money comes in – American or Chinese? May the management level vary?**

There is no difference. It's an illusion that the Chinese have poor, weak management, or are irresponsible. Often, management in Chinese companies and companies with Chinese culture is much stronger than that of other players. They come with their strategy. And the planning horizon is wider. Perhaps they are more tolerant of corruption. Well, with understanding. And, perhaps, this factor suggests that such investors will be more aggressive.

**After the downturn, are investors returning?**

Investors are now taking careful steps in the financial and stock markets. They began to be interested in energy – Centrenergo, gas assets. If the infrastructure is sold – ports, railways, roadways – this is what the Chinese and Arabs are interested in. Turkish investors are interested in real estate, hotel business. Even Americans watch the Ukrainian market and wait for privatization.



**Aivaras Abromavichus**  
Former Minister of Economic Development  
and Trade of Ukraine, investor

# I AM OPTIMISTIC ABOUT FUTURE

## How do you assess the state of Ukrainian economy?

I believe that Ukrainian economy is now at an early stage of economic growth. This is reminiscent of the classical situation, when after a long, rather deep crisis, a recession begins to rise. Initially, growth is always small. There is never a V-like lift. Now it looks like a U-shaped graph.

Our task with the Ministry of Economy, the NBU, and the Ministry of Finance was to stabilize the economy. We have achieved this, including unpopular methods, such as control over capital withdrawal, temporary import duty, currency control. In the end, these measures succeeded: the purified banking system, energy sector, we managed to eliminate the most obvious corruption schemes – from Ukrecourses (State Enterprise for Managing Waste as Secondary Raw Materials) to oligarchic oil sales discounts. 40% of business licenses are canceled, 80-90% of certification procedures are synchronized with the EU requirements. And in such conditions we are moving forward. Therefore, I look into the future with optimism. Despite a rather fragile political situation, sometimes we are led away from the proper Euro-integration path. Economics – separately, politics – separately. The growth potential is unlimited. In the long run, it is no lower than in the neighboring countries.

## What are the attitudes of foreign investors towards Ukraine? What are they afraid of? Where do they see opportunities?

Over the past six months, the situation has changed in a positive way. Even according to EBA surveys, more than 80% of the surveyed companies intend to invest in 2018, to create jobs. This is the highest figure in many years.

At an early stage of growth, not everyone has noticeable improvements. The consumption-related sectors of the economy have already felt them thanks to deferred demand. I can clearly see: today the situation is better than a year, two or three years ago.

But traditionally the main reason constraining the flow of investment is not the war, but everything to do with the rule of law in our country. There is a zero trust in the judicial system, power structures, which neither reform nor lustration has touched – approaches have remained unchanged. It is in this that we are very different from the western neighbors who do not have such problems.

I like constructive criticism, so I'll name the positive steps as well. Concerning this, one cannot but mention the State Fiscal Service of Ukraine. They are, of course, far from the Estonian model, whose motto is: "We are not here to collect taxes, but to serve the business." Yet the electronic VAT refund system is working, and I felt it myself. Until recently, we were the only country in the world, which in this way – inadequate, incomplete return of export VAT – actually deterred the business from export operations.

## Previously, you invested a lot in small and medium-sized banks in Ukraine. Do you think such investments are promising today?

If Ukraine had a stock exchange and traded shares of the banking sector, they would have demonstrated the highest yield growth in recent times. Banks are the engine of economic development and are the first to suffer when the crisis begins. But banks are the first to feel the improvement of the economic situation. They have already felt it. I think that the one who invests in banks now will make profitable investments.

## Your colleague from the Supervisory Board of the Ukrainian Corporate Governance Academy, Francis Malige, Managing Director for Eastern Europe and the Caucasus at the EBRD, suggested: The recent successful placement of Ukrainian Eurobonds will weaken the urge for reforms and put their implementation at risk. Do you agree with this?

Francis Malige is my accomplice who, in difficult times, helped Ukraine a lot. He does not skimp on statements, because he understands: with support and simultaneous pressure, you can be successful. And I agree with him. We lost an opportunity of massive reforms immediately after the elections, when people were ready for everything for the sake of the European future. This moment is lost. Especially regarding the reform of law enforcement agencies, power structures, courts, the fight against corruption in general, the land reform, election laws, and parliamentary immunity. All that is being discussed so rapidly.

We are approaching the election. And it will be difficult for the authorities to offer something unpopular, without appearing to be criticized by populists. Therefore, they do not dare to do so. The only tool that was kept is the IMF program: get money in exchange for the implementation of previous useful agreements for Ukraine. Partly thanks to the already accomplished work here – this is a fact, but to a large extent due to unlimited liquidity in world markets, we were able to attract the \$3 billion. Markets remain open to Ukraine and may force the authorities to curtail the IMF program, and the requirements for repaying loans may be closed at the expense of new loans on free markets. This is dangerous. Because it is a signal that the desire to implement reforms will decrease dramatically.



**Ivan Kompan**

*Partner of Kompan Consulting,  
a lecturer at the Edinburgh Business School*

**ABOUT REFORMS:**

In 2019 nobody will make any decisive reforms. Because before the election, a) – no one does it and b) – the current government does not possess such a credit of trust and rating to make unpopular steps. Moreover, reforms are always unpopular.

We will see balancing, deterring the situation. The authorities will try to keep the hryvnia exchange rate unchanged. For the rate always determines the health of our economy, although this is not entirely true from an economic point of view.

Our lives, by the end of 2019, will be determined by external debts. The balance of Ukraine as a state is very unattractive. The amount of debt which makes 80% of GDP is very bad. 4-5% of the state budget is spent on servicing public debt. This is more than spending on medicine, and approximately equal to the cost of the army.

**ABOUT EUROBONDS:**

The fact that we successfully placed Eurobonds is a certain coincidence, the situation on the international capital markets. In the world, there is almost a trillion of uninvested money. They are collected in funds, waiting for their time. And then Ukraine emerged as an opportunity. So why not play and invest 2-3% of what the investor has in something like Ukrainian Eurobonds? That is why, let's say, it is clearly not the merit of the state and not the recognition of Ukrainian reforms. But, perhaps, evidence that not everything is so bad.

When the IMF gives money, then, firstly, they are definitely cheaper, and secondly, the IMF requires reforms in exchange for money. It is negative that nobody requires anything for the money that investors have given: some will be spent on debt refinancing in order to lift the peak load, and part of it, just my subjective impression, will always be spent on some political purposes.

**ABOUT LENDING RATES:**

The NBU cannot order all the banks to issue loans with a 5% interest rate – it is impossible. In order to issue funds with 5%, banks need to attract them with 3% – from their corporate and individual clients. Would you like to keep money on a deposit below 3%? Probably no. Because inflation is higher than the risk of instability in the banking system. And if you know that everything is stable, then perhaps you will be satisfied with 3%, so there will be 5% on a loan. It is impossible to instruct by a command-order method: "Issue loans cheaply." This is the same as saying that hryvnia should be fixed at 26.5. Yanukovich fixed it at 8, Yushchenko wanted it to be 5. But you can keep it as low as you like, it will still strike one day.

Currency legislation is becoming more liberal, and there are positive changes in this direction. Both for companies and for individuals, citizens of Ukraine who were allowed to invest fair money abroad. But people simply do not know and do not understand how to invest in international capital markets, for them it is terra incognita. They much more feel like buying another apartment in a new building, muzzing with it afterwards. But those who have invested in apartments five years ago, lost more than three hundred dollars out of every thousand. At the same time, the US securities market grew by an average of 12.4%. That is, if you grow so much for six years, then your capital doubles. That's exactly what people need to be taught- how to invest abroad.

**Kateryna Rozhkova**

*Deputy Governor  
of the National Bank of Ukraine*

Banks are a domestic investor. And they say: "We are ready to lend, but give us legislation that protects our rights as lenders. Give us the Law on the Protection of Creditors' Rights, the Bankruptcy Law". These laws have been in the Verkhovna Rada for over a year. Discussed in committees. We have 15 serious bills. Perhaps we will be able to go through the first reading, in order to move this process from dead point. This will be just great in order to restore lending by banks.

**Sergiy Nikolaichuk**

*Director of Monetary Policy  
and Economic Analysis Department  
of the National Bank of Ukraine*

We expect the rates at commercial banks for both deposit and business loans to increase. At the same time, we believe that this will not significantly affect the volume of loans. Because big business is more oriented towards external engagement. And for small and medium-sized businesses, the rates will not be so sensitive to the change of the discount rate.

# BANKING SYSTEM HAS REACHED PROFITABILITY

All major banking groups are represented in Ukraine. For the past two years, the main share was investment in bank capital. This year, we already see investments in the real sector. Firstly, stability is of crucial importance to the investor. Secondly, understanding of the rules of the game. Thirdly, the legal security of investments. Ukraine's market is still interesting today. But those major investors do not yet feel secure on it. But we are moving towards it.

I am an optimist. We see that the banking system is already crediting and has reached profitability level. The market is changing for the better, it is capitalized and liquid. It becomes better, closer to the client and more technologically advanced. The basis for active development is high competition.

Worldwide, banking and financial systems are not homogeneous. They are regulated differently and represented on the market in different ways. Our first 30 banks make up 96% of the system. So these banks are innovative. They did a very good job at home during the crisis: they rebuilt their processes, made efforts to improve their IT systems. I expect that now it will be very interesting. Banks are coming up with new products and options for customers. There are large financial institutions with foreign capital, there are state banks. Oschadbank has changed very much. Of course, neither technology nor procedures can be compared with world leaders. But it can hardly be recognized.

As for enlarging the number of supervised institutions, the largest in terms of volume and importance segment of the non-bank financial market is insurance companies. Some of them were used to withdraw funds. Other insurers used schemes to artificially create their own reserves through "junk" securities, which never had any real quotes. Fake reinsurance abroad was also popular.



**Kateryna Rozhkova**

*Deputy Governor of the National Bank of Ukraine*

Now there is financial monitoring. This is already improving the insurance market. When there is no possibility to carry out illegal operations, the scheme "deflates".

What would we like to do as a regulator? We would like this market to be real indeed. Finance, economics and insurance support each other. How do we see it? Thanks to our joint work with Timur Khromayev (National Securities and Stock Market Commission), "junk" securities have been withdrawn from circulation, the result of the purge of the banking system – there are no schematic financial institutions, and there are no available banks for creating artificial reserves.

I would now like to work with the market to implement the latest European directives in the insurance field. Today, we give insurance companies a clean banking sector where they can place their long-term reserves. Pawnshops, credit unions, and financial non-bank institutions can also provide loans. All over the world, they are subject to more liberal regulation, with insignificant capital and liquidity requirements. And we plan to do this. We will regulate the part that conceals social risks, we'll give a year to agree things. On the contrary, we are liberalizing the market segment without risk for lenders and clients (in terms of loss of money).

# INVESTMENTS



**Daniel Bilak**  
*Director of Investment Promotion Office*

The investor needs to be taken by hand and led. Because they do not know who they should meet and how to implement their project in our environment. I hope that in the next two to three months we will have the result of such work – implementation of projects in the fields of energy, infrastructure, agribusiness.

But to do this, you need to create comfortable conditions for those investors who are already present in Ukraine. We can

not go to foreign markets and tell how good we are. Because they will come to the current investors and those will tell them about numerous problems. I can say anything. And the Prime Minister can say anything. We need to have happy investors here in Ukraine. We are focused on this.

I emphasize, we must create historic investors – the apostles who will preach the Gospel from Ukraine to the outside world.

**Ivan Kompan**

*Partner of Kompan Consulting, a lecturer at the Edinburgh Business School*



Foreign investments consist not only of big business. This is not only Mittal Steel, BNP Paribas, or some large groups. This is also small and medium business. But a businessman who is used to living and working according to civilized rules in Germany, Holland or elsewhere, finds it difficult to figure out how things are done here. Of course, there are always pioneers who are not afraid of risks, but most people want to earn calmly. And Ukraine is a terrible risk.

What was interesting for investors before? Workforce. But now the trend is that instead of a cheap, ignorant, unstable, sometimes revolutionary-minded manpower, it's easier to use robots. If you look at the hourly cost of industrial labor, then in Germany it is about 40 euros, in Poland – about 12, in Ukraine it's probably 3 euros per

hour. And the cost of the robot is about 4 euros and it is rapidly falling. Therefore, cheap labor in a country with an unstable social situation will not be an advantage.

There is still an IT sphere. But there will be no breakthroughs, in my opinion. Because in a country without the development of fundamental science, you can not create new IT technologies. You can only upgrade what has already been done somewhere in America or Europe. Yet placing production in Ukraine is not the same as placing it somewhere in Bangladesh. Therefore, we will be interesting for investors. But the window of opportunities closes quickly, much faster than 20 years ago. We must be on time to put at least one foot in that last wagon.



**Alexander Minin**  
*Managing Partner of KM Partners Law Firm*

Today, we are more often confronted with issues that arise not through objective circumstances, but through artificially created problems. Some state bodies work "on their own", for private interests, and not for the state. This is the biggest concern for our customers. After all, technical problems are being solved, while reputational ones are hurting Ukraine.

An investor can not predict the cumulative burden of problems that can be made for them. For example, a Dutch investor is leaving Ukraine. He has been working here for 15 years and

even makes profit. But he calculated that he earned 5% of the total profit in Ukraine, and spends more than half of his time on solving various crisis issues. He is tired of Ukraine. Constantly waiting for changes for the better. But waiting for 15 years is too long.

The CEO of one large company named the following statistics: Sales in Ukraine is 1% of the total sales in Europe, while PR, GR, and problem solving costs are 10%.

**Timur Bondaryev**

*Managing Partner of Arzinger Law Firm*



Ukraine should be able to sell itself. The world is dominated by competition. The investor looks at us among 4 to 5 countries, for example, around the Black Sea. And Ukraine has always, always lost. Because of reputation, corruption, bureaucracy. Because the information that investors receive from foreign media, which is often sponsored by Russia, is not true. They do not even come here. Often, when I manage to bring a person here, they say: "Wow! Thanks for bringing me here. I thought there were armed men and bears walking along the streets."

Problems that stop the foreign investor are the same for all spheres: over-regulation, lack of rule of law, corruption. I would also add the lack of a communication strategy, a strategy as such, and the need to depoliticize those industries where politics is inappropriate.

I want to emphasize: we do not have such bad legislation. Foreign colleagues confirm this. But we have problems with respecting the law.

# RISKS AND OPPORTUNITIES



## Oleg Mistyuk

*CEO of Kyiv Investment Agency*

Success is measured not by the sum of investments, but by the number of agreements. Since 2014, we have reached 26. 27 programs, including technical assistance, together with USAID, DFID, IFC, EBRD and other international partners, concerned the preparation of future investment agreements. We have created conditions for the city to cooperate with private investors, in particular in the sectors of energy, medicine, education, commercial real estate and information technologies.

Almost all infrastructure projects are designed for 10-15 years, or even 25. These terms are the planning horizon for investors, and they can be quite confident: the city will retain its corporate governance standards and remain a reliable, financially-capable partner.

Among other things, in 2016-2017, we signed the following construction contracts:

- sports complex – total investments of 273 million UAH;
- the medical center at the Kyiv City Clinical Hospital № 14 – 1 billion UAH;
- residential buildings for citizens who suffered from the activity of the “Elita-tsentr” group of companies – UAH 225 million.

By the way, there is a big difference in the approaches to reaching investment agreements in Ukraine and abroad. I communicated with an institution, similar to the Kyiv Investment Agency, which provides transaction support throughout Canada. They did not believe that it took 90 days to go from an idea to an agreement. They spend at least 18 months on one project.

Realization of such projects usually takes a lot of time. But we have to create truly decent conditions for the investor.

## Lee Yang-goo

*Ambassador Extraordinary and Plenipotentiary of the Republic of Korea to Ukraine*

Within the framework of the Master Plan for joint investment projects, the Korean side identified five priorities for investment in Ukraine: the agro-industrial sector, energy, IT, medical industry and infrastructure. We have the potential and demand. But to attract a Korean investor, more cooperation is needed.

Ukraine is in the country risk category, that is, there is no financial institution that would assume responsibility for the financing and curation of investment projects. This is a big problem. Thus, investors take on all the risks. The second issue is the image of Ukraine. We are going to fight against the invisible threat, because the reputation is invisible. But perception strongly influences decision-making. It is necessary to change the picture towards a more attractive image.

But despite this, we have many promising projects. I know that a large Korean company producing agricultural machinery wants to enter the Ukrainian market. And the company dealing with biodiesel is already working here. Recently, the Korean world-wide manufacturer of dental equipment has opened an office in Ukraine. Korean IT company is almost ready to work in Kyiv. They want to invite about 300-400 Ukrainian IT specialists to work. The Korean consulting agency is also ready to work here to help Korean companies implement promising projects in Ukraine. It will be more like a communications office. There is another potential investor – a company that produces automotive spare parts. The CEO is fascinated by the potential of Ukraine and plans to move production here. They have even found a location.



## Liu Jun

*Economic and Commercial Counselor of the Embassy of the People's Republic of China in Ukraine*

At various forums, we often hear that China is trading with Ukraine, but does not invest. It is not like this. In fact, real Chinese investors do not like to publicly announce their activities on television for their own advertising. This

is because people are afraid of unexpected pressure. As you know, the market is not fully organized. Both Chinese and Western investors have some concerns about the Ukrainian market.



## Petro Matiaszek

*Deputy Director of Investment Promotion Office*

Through 2017, the Office managed to attract about \$650 million. By the end of the year, we expect to reach \$1 billion, and in 2018 – even more. All projects are at different stages. We do not disclose information about the investments of the companies. But all the regions are interested: Asia, North America, Europe.

The Skoda car manufacturer is considering Ukraine to create a complete line of assembling certain models here. We have been

helping this process for about 6 months. But there is no solution yet, because there are other countries that compete with us for investments. It is also worth considering the development of the global, regional market for the sale of cars.

These are natural things. The delay is happening not because of Ukraine. Solutions for hundreds of millions of dollars are never made easily. It is worth taking into account the state of the global economy and competition in the markets.





# ENERGY

## EUROINTEGRATION AND POPULISM

In 2019, Ukraine's contract with Gazprom for the transit of gas to Europe terminates. In such a situation, the question of the further functioning of the Ukrainian gas transmission system becomes arguably the most acute. Keeping transit of Russian gas through the territory of Ukraine to a large extent will depend on the success in counteracting the construction of the North Stream 2. Government and business are currently considering several options for using and developing the GTS. One of the main ones is integration into the European gas transmission system in the form of a large hub.

One of the main prerequisites for success in this direction is to increase its own gas production. The best option is to involve investors in a product-sharing agreement, where the country would be a business partner. Investors lack incentives to enter the Ukrainian market. This is due to closed geological information, high rent, unstable tax regime and constant changes in legislation.

Another incentive for investors could be privatization. The largest interest in this respect is NJSC Naftogaz of Ukraine and its subsidiaries. Today, the management of Naftogaz is deliberately moving towards unbundling and further privatization of the company. At the same time, its lawyers successfully defend their position in a dispute with Gazprom in the Stockholm Arbitrage. In The Hague, they are considering a lawsuit by Naftogaz to the Russian Federation regarding losses from the loss of Crimean assets of the company. The decisions in the dispute are expected in 2018.

Meanwhile, Ukraine has almost lost the opportunity to use the Chinese loan, which could be the largest and cheapest loan in the energy sector in the country's history. The loan agreement was signed in 2012, but the transaction of credit money has not started yet, although a sum of \$3.656 billion is still reserved by the state China Development Bank for Ukraine.

Electricity in Ukraine should also determine the vector for further development. Recently, NPC Ukrenergo signed an agreement on provision of mutual emergency assistance with Bilenergo, which envisages the renewal of electricity supply between Ukraine and the Republic of Belarus. Meanwhile, we are aiming for integration into the European energy system. This move will make the country an equal player in the European market and help to attract new investors into the energy sector.

In general, energy was and remains the most capital intensive sector of the Ukrainian economy. However, political populism does not let it develop properly. Political contradictions hamper important processes of reforming the industry. As a result, there are no investors, no money and no development. Whether the situation will change next year depends on whether the stakeholders can agree and put the country's interests in the first place.

These and other urgent issues of the energy sector were commented by Deputy Minister of Energy and Coal Industry of Ukraine Nataliya Boyko, Deputy Chairman of the Committee on Fuel and Energy Complex of the Verkhovna Rada Olga Bielkova, Chairman of the Executive Board of NJSC Naftogaz of Ukraine Andriy Kobolyev, Managing Director of VuglesynteZgas Andriy Suprun, Committees Manager of the European Business Association Igor Gotsyk, President of the Centre for Global Studies "Strategy XXI" Mikhael Gonchar and Senior Partner of "Asters" law firm Armen Khachatryan.

# CHALLENGE – IS ALWAYS AN OPPORTUNITY!



**Nataliya Boyko**  
*Deputy Minister of Energy  
and Coal Industry of Ukraine*

## **Why has nobody built a large oil refinery in Ukraine?**

Because there is no businessman hard enough to agree to get involved. There is a need, the potential is very high: for example, to resume the work of the Odessa refinery. If such a businessman with an adequate business model and readiness for risk comes to the government, he will be carried right to the object with the words: "Do it!". But where are those who can afford such big projects?!

## **Too many risks?**

If I advised the business as before, my advice on Ukraine would be sceptical. On the one hand, challenge is always an opportunity, but at the same time I do not rule out that I would even consider some other regions. But being in this office, I see internal processes, our "kitchen", and clearly understand how much we need an investor who will go and implement a super-successful project. To be able to show it as a showcase, as a "success story", because the big project will be well received by everyone. I meet almost all serious investors and understand: if a business knows to whom to go for support and really wants to implement the project, then everything will work out.

## **So to speak, you are the person who an investor needs to address in the Cabinet?**

I am ready to help any investor, if it is not an offshore created the night before, but a serious company with money, technologies and a desire to enter the Ukrainian market. If I understand that there is a problem and I can help solve it, then I try to help. I know that there are real things that I should tell the investor to trust us. With good English, a smile on your face, in a decent suit. This is not always positive things, but concrete and true. Of the remaining issues, they must have their own consultants. If they advise the investor not thoroughly enough, then they are not doing their job.

### **Under what conditions should a large investor come in?**

I dream of implementing a product sharing agreement (PSA). This is a cool mechanism, much more convenient than the usual license for all contracting parties. Because here your partner is the state. And the state could manifest itself in such an agreement as a responsible party. I really wish that we would have the opportunity to embody ourselves in such a mechanism. I'm waiting for a company that would say: "Let's make a really cool PSA!". I objectively evaluate the situation and understand that a major is not going to come now. It will be somewhat smaller, more flexible, with lower costs and an appetite for risk. The incarnation of such a project will be a real evidence that everything is well, that everything is moving. It's like a successful privatization of Centrenerg. When it happens, we will say: "Guys, everything here is really cool!" And now we are not bad, but not cool either. But we are actively working.

### **If we talk about the GTS, is it possible to use the "pipe", except for the transit of gas from Russia?**

The whole system – practically, no. Theoretically, in terms of transit and supplies for Ukraine... Well, Turkmenistan once sold its gas to us. But still there should be a green light from Russia. If we say that nothing will happen to it and build our GTS oriented only on the European gas market, we will still use only part of the infrastructure. And as for the whole GTS – this will not be the case. There are now several global processes. For example, we are carrying out an assessment of all gas storage facilities, in the new strategy we fixed the transfer of gas metering points to Russia's border with Ukraine, we are fighting for our transit and fighting the North Stream 2 and other political gas initiatives of the Russian Federation. On this issue, we have a joint position with the Ministry of Foreign Affairs and Naftogaz.

### **Don't the provisions of the Association Agreement suggest a dialogue? Does the European Union not ask: "What about Ukraine? Isn't the North Stream 2 worrying"?**

We are in constant dialogue, but each EU country thinks first of all about its own interests. When we went to Brussels to have consultations with OPAL on increasing bandwidth, we asked: "Why didn't you ask us? You do realize that this will have an impact?" And they replied: "We have a clear agenda and, in principle, we do not even ask all our countries, and you say "you". Their bureaucratic system gives a clear logic, who, what and when to ask about making a decision. We have a dialogue, there are positive changes, but it is a very fine and fragile process.

Let's say, another tool (except for the Association) is an agreement with the Energy Community. Currently, they are amending the Basic Accession Treaty to the Energy Community. Realizing that they want to put more commitments on us, we are struggling to gain wider benefits, the opportunity to defend our interests and the mechanisms of additional guarantees. Sometimes we even put the EU, as a negotiator, in an awkward position. For example, with regard to the use of strategic infrastructure, we believe that we cannot be a country that simply receives a decision from Brussels. We must take part in its adoption, we have a strong position and a clear line of reasoning.

### **When these processes are completed, what changes should we expect? Will the investment come? Will Shell return?**

Everyone will have a clear understanding that we live according to the same rules as Europe. We will become part of the European market. Let's be clear. I do not like when Ukraine is considered to be solely an object of risk. And I am glad when we become the subject for which all the risks are evaluated. Now we have a peculiar

transitional period between the object and the subject. Ukraine should become a clear partner for all EU countries, and not only in the energy sector. The result should work out in the complex.

### **And as for electricity?**

#### **At what stage is the integration with the EU?**

In my opinion, if we do not integrate into the ENTSO-E and do not work as part of the infrastructure and the market, we will never reach the required level of security. Our companies, working within Ukraine, are one thing. It is important. And the market, which should be built step by step, will give tangible results. But we can do more. We must enter the EU market and be able to be part of the grid and market relations with the EU.

### **And not to focus on the flow only with Belarus ...**

Belarus signed a "fresh" agreement on emergency assistance between our energy systems. Well, it would seem like a little flow. But in a situation where we were somehow refused to be provided emergency assistance, although we had a clear agreement with "another country," we realized: in such a moment, Belarus is an important factor. But if we go to the European market, then we have to balance ourselves at one stage. Such are the obligations under the ENTSO-E agreement. By the way, for Ukraine this is the second process of integration and demonstrative transparency of the energy infrastructure. The first one was implemented in October 2014 – our GTS operator joined the ENTSO-G. And we immediately felt the results.

### **What non-economic factors hinder the development of the most promising sector of the Ukrainian economy?**

Good question. As for me, this is probably the high degree of politicization of the most promising sector of the Ukrainian economy. Moreover, underestimating the complementary effects that investments in the energy sector can make. Most often, important economic principles fall out of the decision-making chain. I understand what to say to people: so when we enter the market, electricity, at first, may become more expensive, then maybe it will become cheaper, but at first it will rise in price – there are so many "maybe's" in all this! And everyone wants their "dollar for 8" and wants it right now.

#### **Olga Bielkova**

*People's Deputy, Deputy Chairman of the Verkhovna Rada Committee on Fuel and Energy Complex*

All problems in the markets are "closed" today by the Cabinet of Ministers of Ukraine and the regulator at the expense of state-owned companies. But we, as shareholders of these companies, also have an interest in maximizing their value. And this is impossible without removing the political influence on their management. If politicians, before every election in their chase for votes, instruct state companies on what to do and how to cover the problems in the market, these companies will never be able to compete on an equal footing with private ones.



**Armen Khachatryan**  
Senior Partner of Asters Law Firm

In the case of the termination of transit of gas from Russia, our gas storage facilities will play a key role in the work of the Ukrainian GTS. At the border with the EU, 25 billion cubic meters of storage are located. They allow the supply of gas from one point to six countries of the European Union. Perhaps they will be the basis for creating a gas hub for the countries of Eastern Europe. For several years, talks have been held concerning such a hub with Poland.

Ukraine is about to create a regime that is conducive to the use of gas storage facilities. From 2017 it is possible to use them in the mode of "customs warehouse" and thus keep non-cleared gas for up to 3 years. The resource of gas storage facilities for this is 14 billion cubic meters. The "customs warehouse" mode has been operational in September and more than 16 companies have already taken a test gas injection into the storage facility.

Joint actions with EU countries are also needed, where active discussions are ongoing on the future of the North Stream 2. The danger is that Russia invests enormous funds not only in building a pipeline, but also in lobbying its interests in the EU and the US. Given the fact that the transit contract between Gazprom and Naftogaz ends in 2019, Ukraine, with the support of the EU, should begin negotiations with Gazprom to conclude a new transit agreement, with the transfer of the point of gas supply to Europe on our eastern border. If it is implemented, Russia will no longer be able to refer to the unreliability of supply through Ukraine. Our positions will be further strengthened in case of attracting a foreign partner for the Ukrainian GTS operator, which currently is being actively discussed.

# GTS : LIFE AFTER GAZPROM

**TRADITIONAL UKRAINIAN-RUSSIAN COOPERATION IN THE GAS INDUSTRY HAS UNDERGONE A DEFORMATION. IN THE PART OF ITS GAS IMPORTS, IT WAS STOPPED ON NOVEMBER 25, 2015. THE TRANSIT AGREEMENT WITH GAZPROM IS DUE TO EXPIRE IN 2019. WHAT AWAITS UKRAINIAN GTS?**



**Andriy Kobolyev**  
Chairman of the Executive Board of NJSC Naftogaz of Ukraine

Privatization of the operator "Gas Mains of Ukraine" and the privatization of the GTS are various things that should not be confused. The GTS is and will remain the property of the state in any scenario of unbundling. It does not belong to Ukrtransgaz and will not belong to the new operator. This is about the possibility of selling shares of a new operator to a western partner or partners, which does not change the ownership of the GTS. Naftogaz supports the participation of a foreign partner in the management of the GTS through ownership of a new operator's stock, and not the withdrawal of state-owned GTS, as our opponents claim. The involvement of a powerful European partner in managing the GTS operator is one of the most important conditions for Ukraine to keep the transit. This position is shared by the European Commission.



**Olga Bielkova**  
People's Deputy, Deputy Chairman of the Verkhovna Rada Committee on Fuel and Energy Complex

The gas hub is a Ukrainian dream. It will become a reality if we succeed in completely liberalizing the internal gas market, preserving Ukraine's transit of Russian gas, increasing its own production, and removing the monopoly position of companies that associate with this. The reform of NJSC Naftogaz of Ukraine, liberalization of prices, separation of the transportation function and the involvement of Euro-Atlantic partners in the operation of the GTS and storage facilities are the steps that lead us to making Ukraine a gas hub. But we must demonstrate the rule of law and the full transition to market conditions, as in developed European countries.



**Mikhael Gonchar**  
President of the Centre for Global Studies "Strategy XXI", expert in energy security

There are three baseline scenarios.

**THE FIRST ONE:** The cooperation will be maintained in the existing format for several years after 2019.

Even if Gazprom builds the North Stream 2 and the Turkish Stream, then it will still not have time to carry out pre-commissioning, test works before the gas pipelines reach full bandwidth capacity. Ukraine, of course, could choose a firm position not to sign a temporary contract until Gazprom and its European partners guarantee that after the commissioning of the North Stream 2, through the Ukrainian GTS, for example, 40-60 billion cubic meters of transit are stored per year.

**THE SECOND:** Relations with the RF in the transit realm will not survive, but with Europe they will not be established.

After the construction of Russian gas pipelines for European companies, it will not make sense to deal with us. The probability of such scenario is 50/50. Because there are several factors that can affect the situation. The main one is whether the North Stream 2 happens at all. There was a factor in American sanctions, which registered a Russian project. Plus, the position of Denmark, which wants to supplement its legislation with the view that not only environmental harmonization, but national security must be taken into account when implementing such projects.

**THE THIRD:** Partial use of GTS of Ukraine in the version of its recombination.

This means that Ukraine's GTS will not use the existing capacity, but only part of it. The main transit route today is the Urengoy-Pomari-Uzhhorod route (on the site from the compressor station Suja from the Russian side of the border to Uzhgorod) with a transit volume of about 30 billion cubic meters. This route was of interest to two European companies – the Slovak Eustream and the Italian SNAM: the possibility of creating a separate operator with these companies and a Ukrainian representative. The operator will lease this direction of the Ukrainian GTS and use it for the transit of Russian gas.

According to any of the scenarios, there is no use of the full transit capacity of the Ukrainian GTS and the UGS system.

# THE SITUATION IN NAFTOGAZ

## AND THE NEED TO INCREASE TARIFFS



**Andriy Kobolyev**

*Chairman of the Executive Board  
of NJSC Naftogaz of Ukraine*

### ABOUT LEGAL ACTIONS WITH GAZPROM AND THE RUSSIAN FEDERATION

The Stockholm arbitration has completed the consideration of cases concerning the sale and transit of natural gas. We are now waiting for final decisions in both cases. We can already state that Naftogaz has succeeded in lifting the unfair "take or pay" principle, which would require the company to pay \$44 billion for untapped gas, as well as retroactively review the prices of contracted volumes. A positive decision in the transit business will enable the new operator of the GTS to become a full-fledged part of the European gas market and operate at economically feasible tariffs. In addition, it will greatly simplify negotiations with potential Western partners, whose involvement is important for maintaining transit after 2019.

As for the trial in The Hague, it is worth clarifying: in this case, Naftogaz is not appealing to Gazprom, but to the Russian Federation. NJSC Naftogaz of Ukraine and six companies from the Naftogaz Group filed a lawsuit to the Tribunal at the Permanent Court of the Arbitration Court in The Hague to recover damages caused by the illegal occupation by the Russian Federation of group assets in the Autonomous Republic of Crimea. The losses of the Naftogaz group due to the occupation of the Crimea at this time are estimated by experts to be around \$ 5 billion.

The decision by the Tribunal is scheduled for the end of 2018.

### ABOUT SUPERVISORY BOARD OF NJSC NAFTOGAZ OF UKRAINE

The termination of the supervisory board may complicate the attraction of loans for gas purchases and the financing of the group's investment projects, as well as affecting the position of the company in international courts. International partners of Ukraine are concerned about pushing the gas market reform, Ukraine's implementation of the plan for corporate governance reform at Naftogaz and IMF commitments. This situation can harm the interests of Ukraine not only in the energy sector, but also in the broader context.

To restore the functionality of the supervisory board, you need to take four steps.

First, in full compliance with the recommendations of the IMF, the EBRD and other Western partners, complete the implementation of the plan for corporate governance of Naftogaz in full. The result of this should be the transfer of a management plan defined

by the plan from the government to the company's governing bodies.

Another important step is the depoliticization of gas prices. Naftogaz is ready to support the announced proposals of the IMF, the Secretariat of the Energy Community and the World Bank or the Antimonopoly Committee of Ukraine to establish objective market benchmarks for determining the regulated price.

Thirdly, we need to hold a transparent competition as soon as possible to form a new composition of the Naftogaz Supervisory Board.

And the main thing is that the government should approve the company's development strategy, which will give its main shareholder, the people of Ukraine, answers to the tasks and functions of the renovated Naftogaz.



**Igor Gotsyk**

*Committees Manager  
of the European Business Association*

The increase in the price of natural gas to the market level has made it possible to noticeably reduce corruption in this sector. Therefore, this step is definitely positive, although such prices are essential for the manufacturers of products. The Cabinet of Ministers has adopted a decree, which obliges the Cabinet to index, i.e. raise, gas prices in accordance with the level of inflation. In particular, the increase should be 18%, as the IMF said. But now this does not happen, and, in

fact, the Cabinet does not fulfil its own decision, its promise. This is a rather political issue, but we represent business, and this decision is understandable for business. Another thing is that there are problems in the gas market that need to be solved: this is the unbundling of Naftogaz in accordance with the Third Energy Package of the European Union, and the technical points we are working on.



**Andriy Suprun**  
*Managing Director of VuglesynteZgas*

# CHINESE LOAN

## WHY DOES UKRAINE MISS ITS CHANCE?

### **What is the consequence of the refusal of the China Development Bank to extend the current loan agreement with Naftogaz?**

It is essential to understand that the China Development Bank is a large financial institution with assets of about \$3 trillion, which financially provides the execution of the strategic tasks of the Chinese state. Accordingly, from a political point of view, for the Chinese side, the issue of proper state support for projects and their importance for the recipient country is very sensitive. They made it clear: in order to make a decision to work with Ukraine, with Naftogaz, it is necessary for the Ukrainian side to be fully determined. There has already been a time when Ukraine missed the deadline for applying for loans. The Chinese bank extended it twice, and our state authorities did not go for it.

At that stage it was not about the projects in the plural. Because those projects of Naftogaz, which they proposed to the ministries and the government, were nullified this year. There is one remaining of the four – the purchase of a park of drilling equipment for Ukrgezvydobuvannya. It is about a dozen installations, which were

offered to be purchased at the expense of the state China Development Bank for Ukrgezvydobuvannya, so that the company could fulfill its 2020 program and increase its production. Because the available equipment does not withstand any criticism.

At all the meetings which I attended, there was the position of the Prime Minister and the Ministry of Energy and the Ministry of Economy that they would coordinate these Naftogaz projects. But when Naftogaz (as stipulated by our investment law and the terms of the Loan Agreement) officially applied for the approval of the documents in the Bank, the ministries began to delay. The letters lay for several months, meetings were convened, Naftogaz wrote to them again with a request to consider and negotiate them.

If this were a purely commercial loan for Naftogaz's own support, without a state guarantee, there would be no such problem. And since in 2012 the Ministry of Finance entered into a guarantee agreement with the China Development Bank and the Budget Law for 2012, the parliament voted in favor of granting this guarantee (and also in other areas), we had to adhere to certain internal state procedures.

### **What is the value of a Chinese loan? Cheap money?**

The agreement was concluded in 2012 in a different political and economic situation. But that does not matter, because this is a valid deal, subject to the law of England. A standard loan agreement, rather than some corrupt, toxic one. We are given access to credit funds under a state guarantee. That is, choose projects, coordinate them, submit them to the Bank, receive money – finance! Build, create.

At first, representatives of the Ministry of Finance said that there were cheaper money, but during this time nothing was offered. Then there was a long story from the Ministry of Economy: we had to prove the economic feasibility of our projects. In spite of the fact that they were previously agreed with all ministries at a number of interagency meetings. So we were still preparing a package of complex documentation. And then it took the Ministry of Economy over a year, so that, under the current procedure, to give Naftogaz an affirmation in the form of a positive economic conclusion. It was given for three of the four project proposals of Naftogaz.

### **Were there questions about the purpose of state guarantees?**

In early 2015, Ukraine officially informed the China Development Bank and the Ministry of Commerce of the People's Republic of China (it is the curator of this credit line) that the situation had changed in the country: both in energy, in politics and in the economy. The Ukrainian side said: previous projects have become irrelevant, we want to offer others. Chinese partners responded willingly to work in the new environment.

At that time, it seemed that changing the purpose of the already issued state guarantee would not be a big problem; it was only necessary to re-vote the changes in the parliament. There is a \$3.6 billion loan limit, already reserved in the budget for old projects. There is a certain procedure: the Cabinet, as a subject of legislative initiative, was to propose amendments to the Law on the state budget in order to review the purpose of the guarantee and to direct these funds not to coal replacing natural gas with coal, but, for example, to projects on energy efficiency or increase of production of hydrocarbons. There were numerous government meetings, but in the end, they did not do anything about that.

### **At the moment, Naftogaz's cooperation with the China Development Bank has been discontinued. Can China consider this concrete example as a manifestation of Ukraine's unwillingness to cooperate? And not only in the energy sector.**

Quite right. This is the largest energy loan in the history of Ukraine, which has been available to us since 2012. From credit practice, for reservation of funds, which is 3.6 billion dollars, you pay a fee. But it wasn't the case. There was no such thing as insurance, which is usually paid for almost all external loans (for example, American or German banks).

Unfortunately, we have not used this affordable credit tool. This is a litmus test for China on the potency of our side. And the situation with this loan is not unique.

### **What alternatives to a Chinese loan are considered for the purchase of a park of drilling equipment for Ukgazvydobuvannya?**

Life goes on. Naftogaz and Ukgazvydobuvannya will still look for opportunities to buy this equipment – either at a loan expense, or on the terms of delayed payments to producers. But in a year and a half, a lot of negotiations have taken place and, unfortunately, nobody gives loans for such a long period. Manufacturers offer a maximum of five years, not fifteen, as the China Development Bank. In addition, funds for producers are more expensive. It is banal because there is no state guarantee.

### **Since the goal of creating VuglesynteZgas was the realization of projects at the expense of the Chinese loan, what will be the future of the company?**

True, our task was to provide Naftogaz and the government with so-called development of projects: project decisions, pre-project documentation, preparation for the registration of land spots, technical calculations. This is a big hard work. All materials were transferred to Naftogaz, our parent company. They will wait for their time.

Speaking about plans, it's up to Naftogaz to decide on the owner of VuglesynteZgas. Our team has experience, technical knowledge, work experience, contacts. We carried out development projects in energy efficiency and power generation. Our professionals were among the first in Ukraine to launch projects on wind power generation, starting with the idea, ending with the launch of wind power plants connecting them to the network.

Regarding energy efficiency, we actively participated in the development of Naftogaz's project for the free replacement of boilers for poor people, with the return of the spent money at the expense of the part of the subsidies they receive. We can already offer an active model, which, after a state decision, should only be scaled up.

# GAS EXTRACTION

## PROBLEMS AND PROSPECTS

### **Igor Gotsyk**

*Committees Manager of the European Business Association*

There is a government-approved program for increasing natural gas extraction by 2020. Ukrgezvydobuvannya, DTEK, NJSC Naftogaz of Ukraine and foreign investors are operating in this market. But we do not see a clear, consistent support of the state in gas extraction.

Firstly, there should be encouragement of the development of new drillings and a more acceptable tax regime for this. Secondly, rent rates for the extraction of natural gas and gas condensate. Foreign investors will be ready to invest in Ukraine, to develop new sites, new drillings, when they receive state support.

To change the situation, we offer specific initiatives. The issue of access to geological information is very important. Together with the Ministry of Ecology and Natural Resources of Ukraine, we presented changes to the geological legislation about a month ago. The idea we have been developing and supporting for many years is the development of a new subsoil code that will encourage market players to increase gas production.

Secondly, there are bills in the Verkhovna Rada to support the gas sector: both the tax aspect and the stimulation of development, and the drilling of new wells.

### **Armen Khachatryan**

*Senior Partner of Asters Law Firm*

Many market players believe that the level of extraction in Ukraine will grow under a stable tax regime. For example, in 2015-2016, an increase in rental rates had a negative impact on the oil and gas industry. At present, there are a number of legislative initiatives that include the introduction of a stimulating rental rate of 12% for new wells. It would also be possible to fix its effect and protect investors from negative changes in the legislation. A similar concept is envisaged in the legislation governing product distribution agreements – at the moment, the most flexible and attractive form of investment in the Ukrainian gas-mining sector.

Ukraine has one of the best laws in the world regarding product distribution agreements. The plans are already known for conducting contests in the near future for the conclusion of agreements on product distribution in several large areas.

Regarding the implementation of the Concept for the development of the gas industry in terms of increasing its own production, Ukgazvydobuvannya actively works on this: it conducts tenders for the purchase of services for hydro-breakdowns, for drilling new wells, and already declares the growth of production.

In 2012-2013, attempts were made to implement multimillion projects in the field of gas extraction, primarily shale, with the participation of world oil and gas companies – Shell, Chevron, Exxon Mobil, ENI. However, the annexation of Crimea and the military conflict in eastern Ukraine made their adjustments, and the big international players did not finish what they had been begun.

### **Olga Bielkova**

*People's Deputy, Deputy Chairman of the Verkhovna Rada  
Committee on Fuel and Energy Complex*

I personally believe that the problems of energy are concentrated in two directions: incomplete liberalization of markets with monopoly position of some players and inefficient management of state energy companies. But as an economist, I must admit: you can claim that something expensive is cheap for however long you want, but it will not be so. Accordingly, the gas market without further liberalization will be of limited interest for the investor.

### **Igor Gotsyk**

*Committees Manager of the European Business Association*

Regarding the problems of the industry. Firstly, it is a monopoly. When the state owns property, it becomes a substance accumulating debts. They are either a burden on the state budget, or simply frozen.

Secondly, the lack of privatization. Many of the energy facilities are in state ownership, which prevents them from developing fully. From the example of the Odessa port plant we see that the state is now not interested in privatization.

Thirdly, the growth of tariffs. We understand the preconditions, understand the internal processes. But for companies this is an actual and problematic issue, because the increase, in fact, occurs not yearly, not even every half a year, but monthly.

The fourth problem is a constantly changing and unclear policy for potential investors. The investor sees the situation on the market with possible raids of companies, seizure of documents, delays in the provision of technical documentation and relevant licenses. They understand the probable risks in the process of activity, competition or its lack, but such small things frighten them.

# ELECTRI RE



**Olga Bielkova**  
*People's Deputy, Deputy Chairman  
of the Verkhovna Rada Committee  
on Fuel and Energy Complex*

## THE SITUATION ON THE MARKET OF GAS EXTRACTION

### WHAT WE OBSERVE

### PRIORITIES

#### DEVELOPMENT OF NEW SITES

Over the past year, no auction was held (in three years 75% of the special permits of the Geology and Mineral Resources of Ukraine were issued outside the auctions)	Liberalization of access to geological information
For more than two years the Poltava regional council has refused to coordinate new sites (in Poltava region 40% of Ukrainian gas is mined)	Establishing relations with regional councils. From 2018, 5% of rental income will be directed to local budgets, which should be the reason for depriving them of their authority to agree areas for auctions
The policy of Geology and Mineral Resources of Ukraine frightens investors and contradicts international practice. In particular, the terms of special permits are unreasonably prolonged, require a fictitious charge for the growth of stocks. In fact, it penalizes investors for success, demotivates them to invest in geological exploration	Fixing the system in the Geology and Mineral Resources of Ukraine. It should be a progressive, reformist body deprived of political influence. Adoption of the subsoil code.

#### TAX STIMULATION

The current regime is economically unattractive (the average rent is 30%, in Europe – 12%) and confusing (11 rent rates) with a number of allegorical distortions (condensate tax is twice the rate of oil, product-sharing agreements are double-taxed)	Changes to the tax code to stimulate new investments (12% of rent for new gas wells that started drilling in 2018)
Unstable and unpredictable mode (for the last 3 years, rental rates have changed 5 times)	Implementation of a 10-year stabilization condition for such projects, as well as correction of distortions

#### DEREGULATION OF PERMIT SYSTEM

The current permit system is restrained, every step requires agreement, approval or decree (44 documents)	Adoption of bill 3096-d to simplify the design of the introduction of oil and gas fields in the industrial development and solution of land issues related to drilling
The system is unbalanced, with no single decision-making center (16 institutions), extremely long-lasting (more than 3.5 years)	

# CITY BOOT

**Armen Khachatryan**  
*Senior Partner of Asters Law Firm*

Adopted in April 2017, the Law of Ukraine "On the Electricity Market" envisages the elimination of the entire wholesale electricity market from July 1, 2019 and the creation of a new market. It will consist of such trading platforms or "markets": the market of bilateral agreements, the "day ahead" market, the internal market, balancing, retail and the market of supplementary services. Due to such a liberalized market, it is expected that flexibility, competitive prices for electricity and improved service quality will be achieved.

**Igor Gotsyk**  
*Committees Manager  
of the European Business Association*

One of the most important issues in the sector is the implementation of the new electricity market law, which has been adopted relatively recently. There should be a significant re-start of the electricity market, a change in the process of buying and selling electricity, and, in fact, stimulating and developing competition on this market.



# INFRASTRUCTURE

## CARGO TRANSPORTATION, ALTERNATIVE TO MOTORWAYS, HUBS AND LOW-COST AIRLINES

Traditionally, railways are considered to be a problematic part of Ukraine's transport infrastructure. In the relevant ministry, it is referred to as the "thrombus" of the economy. Continuous scandals, corruption, and excessive bureaucracy of the structure negatively affect its reputation, deter investors and hamper development. Growth in freight rates and the unfair redistribution of cars are perturbing business.

Meanwhile, the state of affairs in the company is commented upon with optimism by the Ukrzaliznytsya. There are plans to renovate the park of locomotives, repair and build new cars, and launch a service for cargo transportation.

Next year, priority will be given to repairing and constructing strategic highways, in particular the Ukrainian part of the Go Highway, which will connect the Baltic Sea with the Black Sea. Ukraine puts great hopes on EU loan assistance in building international transport corridors. There are certain hopes also for the Road Fund, which will start work in 2018.

In the near future there is a construction of toll roads, but before the adoption of the Law on concession, the arrival of investors in this area is impossible.

The airline sector needs investment in the restoration of "conserved" airports, as well as the creation of modern transport hubs based on existing ones. The key to improving the quality and availability of services is the appearance on the Ukrainian market of new airlines, in particular – low-cost ones.

Our seaports remain the least competitive in the Black Sea region. First of all, because of the high rate of port fees. However, from the next year, the state announces its decline by 20%. Business believes that in order to increase the competitiveness of ports, the rate should be reduced by at least two times.

The port industry is in serious need of attracting world-class port operators, which are still only looking at it.

Experts consider the potential for the development of Ukrainian river transport to be underestimated, which may reduce the load on roads.

All interlocutors emphasize the need to create conditions for freight transportation by all modes of transport.

The forecasts and estimates for the development of Ukrainian infrastructure were shared by the Minister of Infrastructure Volodymyr Omelyan, Acting CEO of PJSC Ukrzaliznytsya Yevgen Kravtsov, Director General of Ukraeroproekt Kyryl Novikov, Coordinator of the European Business Association Logistics Committee Yaryna Skorokhod, Economic and Commercial Counselor of the Embassy of the People's Republic of China in Ukraine Liu Jun, Director of the Centre for Transport Strategies Sergiy Vovk, Deputy Chairman of the Verkhovna Rada Committee on Transport Borys Kozyr, Director of Logistics Department of FIALAN Tetyana Dmytruk and Marketing Director of Nova Poshta Irina Kholod.

# NEW TRANSPORT VEINS WITHIN 3-5 YEARS



**Volodymyr Omelyan**  
*Minister of Infrastructure of Ukraine*

## ABOUT THE COST OF CONSTRUCTION AND REPAIR OF HIGHWAYS

There are not enough funds to build a decent network of highways. But last year we accumulated about \$10 billion, this year – about \$20 billion, next year the amount will be at least \$32 billion. We also hope to support the parliament in allocating budgets for separate transport corridors and repairing strategic routes in Ukraine. This is the highway that connects the Baltic Sea and the Black Sea from Gdansk to Odessa, the road Kiev-Kharkiv-Dovzhansky to the east.

Hopefully, we will succeed in fruitful negotiations with the European Union and obtaining additional financing in the form of a grant (doubtful) or cheap credit assistance to create a high-speed highway that will connect Greece, Bulgaria, Romania, Ukraine, and will also go to Odessa. Then the new transport corridors will appear within 3-5 years.

We are already repairing the Gdansk-Odessa route on the Ukrainian territory. This year about 2 billion UAH are allocated, next it is planned to be about 4 billion outside the Road Fund. The movement has begun and it really pleases me. In addition, Ukravtodor is decentralized. The state agency will deal only with the routes international and state significance. The rest will switch to the balance of the regions and will independently determine which roads are top priority, taking into account the strategic development of the whole map of Ukraine in regard to roads.

## ABOUT PROSPECTS OF CONSTRUCTION OF TOLL ROADS

The road sector is problematic, because it can only be a concession. Construction of toll roads is a new practice for Ukraine. We have preliminary talks with a number of European companies, including French and Chinese ones. We offer to their consideration the road to Krakovets, and Kiev – Bila Tserkva. Together with the World Bank, we are developing a feasibility justification for a new autobahn connecting Mukacheve – on the one hand, and Lviv with Dubno almost to Rivne – on the other.

The last two routes are important, because they reduce the time spent on the road almost twice. They are commercially justified, because it is Ukraine's largest transit destination. We understand: there will be enough traffic (and this is important for concessionary roads of general use). The success of the work depends on how quickly the documents are processed and how well we can perform the preliminary selection of the participants.



**Sergiy Vovk**  
*Director of the Centre  
for Transport Strategies*

## ABOUT THE STATE OF ROADS

About 90% of Ukrainian highways do not meet the standards. There is poor repair, some distortion or some sort of deviation from the standards. These roads are only conditionally suitable for transportation. And this is an extremely high figure.

## ABOUT “BURYING MONEY IN THE ROADS”

This thesis will be relevant until the main type of repair is patching. It's just a way to waste money, in general, the situation does not change. But now we see a gradual transition from the model of pit repair to the medium model, to the complete reconstruction of the available routes. And the higher this indicator is, the greater is the

likelihood of getting roads with a warranty usage period of 10-15 years (and if it is concrete – up to 20 years). Then the current model will be partly changing. I sincerely hope that next year there will be a breakthrough in this area.

In the country there appeared many machinery and mini-enterprises that produce components for road repair. Certain changes have already taken place, but they will be complete when we really launch the road fund.

## ABOUT LOANS

Ukraine is using a lot of credit funds inefficiently. This applies to various projects, road sphere in particular. The procedure itself is very bureaucratic and often falls into the realm of the interests of individual transport officials and managers. As a result, we get only a small fraction of what we could. There are possibilities of loan funds, but they are used by 40-60%. There should be work on it, implementation of a clear KPI. When signing a memorandum, you need to monitor its implementation.

# ALTERNATIVE TO MOTORWAYS

Even the creation of the state Road Fund will not solve entirely the problems of unsatisfactory state of Ukrainian roads and a shortage of funds for construction and repair. The issue of re-orientation of freight flows is acute.

In Ukraine, there are three large rivers that have access to the Black Sea: the Dnipro, the Danube and the Southern Bug. In addition, the Danube and the Dnipro are among the five largest rivers in Europe. But in spite of the geographical attractiveness, the turnover of the river traffic is less than 1% of the national, while in the EU countries this figure is more than 13%.

The opening of Ukrainian rivers for trade shipping is by far the most attractive, environmentally friendly and economically sound logistics solution.

The development of inland waterways will reduce the costs of shipowners, cheaply and safely transport cargoes, save roads and be eco-friendly. After all, one barge with a cargo capacity of 4 thousand tons can transport as much cargo as 200 lorries. Moving 1 million tons of goods from roads to water can save the state only on the maintenance of the routs at least 1 billion UAH per year.

After the adoption of the bill "On Inland Water Transport", the volume of transportation by rivers in the next 3 years will increase from 5 to 15 million tons. In view of this, a significant shortage of river fleet is possible, which will hinder the development of water transport.

Today the commercial river fleet of Ukraine is capable of carrying up to 9 million tons of cargo per year. At the same time, more than 80% of the vessels involved in transportation have an average period of exploitation of 20-25 years and are physically and morally obsolete. The existing potential of the river fleet is steadily decreasing due to a part of the vessels approaching a critical period of operation or total technical inadequacy.

To deal with the catastrophic shortage of fleet, the bill envisages the opening of rivers for ships with foreign flags, like Ukrainian roads are open for foreign vehicles, and the sky is for world airlines. This bill should stimulate the start of a large-scale state campaign to restore shipping and freight by our rivers.

On November 8, at a meeting of the Verkhovna Rada Committee on Transport, the bill No. 2475a in the revised version was unanimously adopted.

The Dnipro and the Danube are European rivers, which in the future could integrate the river industry of Ukraine into a trans-European transport corridor. The access to the Rhine-Main-Danube navigation channels through the extensive inland waterways system to Amsterdam, Rotterdam, Antwerp, Ghent will allow us to transport goods by inland water transport almost throughout Europe.



**Borys Kozyr**

*People's Deputy, Deputy Chairman  
of the Verkhovna Rada Committee on Transport*

One of the priority directions of the expansion of logistics of transport corridors is the E-40 river route. It is about 2000 km, passing through the Vistula, the Western Bug, the Pripjat and the Dnieper. Its restoration will enable not only the establishment of passenger and cruise lines, but could also transport up to four million tons of cargo per year. This will significantly revive the trade between Poland, Belarus and Ukraine, with a total market volume of about 100 million consumers. Restoring shipping on the West Bug section from Warsaw to Brest will significantly save time by two to four days for carriers in Central and Eastern Europe. After all, for the delivery of cargoes in this direction, using the Rhine-Main-Danube route, which is almost a thousand kilometers longer than the E-40.

# ON WATER

## FROM STATE TO PRIVATE



**Yaryna Skorokhod**

*Coordinator of the Logistics Committee of the European Business Association*

Reducing port tariffs by 20% is the beginning. In Ukraine, they are one of the largest in the world – 3-4 times higher. Ukrainian ports are not competitive in the Black Sea basin. The rates should be significantly reduced.



**Volodymyr Omelyan**

*Minister of Infrastructure of Ukraine*

### **Is the announced reduction of port tariffs from 2018 enough to increase the competitiveness of Ukrainian ports?**

The tariff must be at least two times smaller. But reducing by 20%, starting from the new year, is already a good step. It was difficult to overcome psychological resistance. When it comes to any decrease, everyone was hysterical, it's impossible to do this – it's a loss of revenue. We explain: revenue will grow along with volume. And efforts should focus on this, rather than charging one vessel that will stay in the port for half a year. I hope this psychology has already been broken and we will move in this direction.

Moreover, the maritime strategy was adopted. We are well aware that the world's strategic companies will be the first to enter this industry. I hope this will be Hutchison Ports and DP World. Support is there. And they have a very interesting business vision. It is not only the operation of existing freight flows, but also their increase, processing, creation of additional value on the territory of Ukraine, new jobs. And this is extremely important.

### **What percentage of profits from port tariffs, concession payments, rental of port property is directed to investments?**

We have a different situation from Europe. Their seaports are oriented mainly on imports, ours are focused on export. In Europe, ports are subsidized, we have the opposite situation – they are the source of additional revenues to the state budget. We can only dream of not

taxing these profits. We have a misconception that port tariffs and fees are profits. We explain: this is not a profit, but funds that should immediately be reinvested in infrastructure to increase (preferably without taxation) the competitiveness of Ukrainian seaports.

We see that the share of private ports is inexorably increasing, as well as the number of goods that pass through them. The number of state ports is decreasing. This trend is correct, because it is healthy: a factor in overcoming corruption and ineffective management. I very much hope that we persuade the parliament to vote for the possibility of privatization of Ukrainian ports or concession. We have to go the European way – when smaller ports are sold and the private owner decides how to develop them. Major ports de jure should remain state-owned, but be granted concessions for a long period of time – 25, 35, 49 years. In some European ports, the concession is 800 years.

### **How can the state stimulate the coming of foreign investors into Ukrainian ports (land issues, taxes, privileges)?**

Investors do not really have special requirements. It is important for them that there is a government which word can be trusted. To make the policy consistent. To make them feel secure. After all, investments in infrastructure are long – at 10, 15, 20 years. They must understand that there is a stable power and political climate. They need to see that the country really is moving towards the European Union and European legislation. Then the investors are ready to go. There is no special conditions.



**Tetyana Dmytruk**

*Director of the Logistics Department of FIALAN*

Since 2014, we have been seeing a drop in the market of container shipping. Almost no one enters Ukraine. This is naturally connected with the increase of transit time. That is, if five years ago it was 25 days, then now it is 33. And if customers wait a long time for their goods, then we are not interesting for large shipping companies. In addition, it is very expensive to come to us. Although the freight flow is increasing now.

There is a problem with the ports. Previously, there were three container ports in Ukraine: Mariupol, Illichivsk (Chernomorsk, ed.), Odesa. Today, in fact, only Odesa is left. Once, Illichivsk had the best infrastructure. Now there is a problem with the exportation, with the container terminal. The inspection of the container already costs almost \$700. People do not go there because of very high expenditures and other transport components.



**Liu Jun**

*Economic and Commercial Counselor of the Embassy of the People's Republic of China in Ukraine*

Cooperation between China and Ukraine in the field of infrastructure is at its peak. This year, Chinese companies are taking part in contests for the implementation of infrastructure projects, in particular, the deepening of the Pivdenniy port, the reconstruction of gas pipes and the construction of a road between Mykolaiv and Odesa.

All these projects have one similar characteristic. We see that the media, government and business are still not used to the competitiveness of Chinese companies. We often feel unfair attitude. For example, we see strange articles about the project in the port Pivdenniy. So, we know that Ukraine sometimes hinders Chinese investments.

# AIR TRANSPORTATION

## HUBS AND LOW-COSTS

**Volodymyr Omelyan**

*Minister of Infrastructure of Ukraine*

**Kyryl Novikov**

*Chief of Institute of Civil Aviation "Ukraeroproekt"*

### WHAT IS THE OPTIMAL NUMBER OF AIRPORTS FOR UKRAINE?

#### WHAT IS THE STATE OF THE AVAILABLE FACILITIES?

The airport industry is undergoing a certain Renaissance. People are ready to fly. And where the policy of the airport is directed not to artificial regulation of the market, but to development, we see a good balance. This happens with Lviv, with many airports, which at one time passed from state subordination to the communal. And there, on the basis of state-private partnership, there are positive changes. We are still relying on the figure of 19 airports.

The standard world practice is one regional airport with a radius of 300 kilometers. For Ukraine, the best number is 15 airports. We have up to 20 "both dead and unborn" ones. Most do not run taking-off and landing operations, because there is no equipment or people, everything is mummified. But the Ministry considers them an airport, although in reality it is just a square, a piece of land. The profitability of the airport depends on how competently the owner is managing it. There are only two state airports in Ukraine, the rest are communal or of mixed form of ownership. The best of the private ones, in my opinion, are Zhulyany and Odesa airport, which will soon begin the reconstruction. The worst in terms of operation are regional airports, where the owner does not care about communal property at all.

### CAN UKRAINIAN AIRPORTS BECOME INTERNATIONAL HUBS?

I would really like to have at least 4 hubs. Along with the existing Boryspil this is Lviv, Kharkiv, Odesa, maybe another airport. Where? At the moment, a discussion is under way to understand better logistics and the greatest readiness. We are finalizing the aviation industry strategy in the airport context. Because the airlines themselves are a business. There should be just transparent competition and equal rights for all. This is also a headache for Ukraine, where everything is regulated. But we are moving forward step by step.

There are a few ignored factors. As a result, there are no aerodromes for large planes – both cargo and passenger ones. Donetsk airport is ruined, Simferopol is occupied. Boryspil can accept Boeing 747 aircraft only. The rest lack the appropriate geometry of the airfield. In addition, Ukraine does not have and never had a cargo airport. Or at least a passenger one with a cargo infrastructure. Boryspil has a cargo infrastructure for cargo aircraft. But it is limited by the condition of the airport – it is still a passenger airport, and cargo is a spare option. Throughout Ukraine there are many transport corridors, airports could serve as a transit base for foreign airlines. But this requires their cargo-planes, which are usually medium and large, to land on a specific aerodrome equipped for this purpose. There is no such thing in Ukraine.

**Tetyana Dmytruk**

*Director of the Logistics Department of FIALAN*

Most transport companies operating with deliveries from China or the United States use the infrastructure of the neighbors: Poland, Turkey. It is easier to carry the cargo to Warsaw than to bring it from China directly to Boryspil. Because we do not have such a number of cargo planes. And we have a monopolized market. For example, only UIA is flying from China. If you use transit airports, it is very long and expensive. The difference, say, in the charter between Boryspil and Warsaw, is almost a dollar per kilogram. This is too much. 5 tons is already 5 thousand dollars. Although the distance is small.

I know that a lot of companies, such as Lufthansa, Cargo, want to come in here. They are not allowed to do so for some reason. When it comes to passenger transportation, they are all very public. And problems get solved. But it's difficult to get here with the cargo.

**Irina Kholod**

*Marketing Director of Nova Poshta*

We looked at options for domestic air travel, but came to the conclusion that this is too difficult and unprofitable. Ukraine has a convenient geographical location – you can get to all settlements in a day.

As for the airline, not all airports have an adequate infrastructure. There used to be airport in Donetsk. Now we don't have it. Today there are almost no freight airports. Only Boryspil, Kharkiv, Dnipro, Lviv can handle this. Well, maybe Odesa. That is, it's inconvenient and expensive. We have large volumes of cargo. To transport them, you need to charter an aircraft. The cost of such transportation in Ukraine is unjustified.

**Volodymyr Omelyan**

*Minister of Infrastructure of Ukraine*

The arrival of low-costs was scheduled to take place in September. But the resistance of individual monopolists and people who want to play not by market but by private rules has stopped the process. I am sincerely convinced: in the first half of 2018, low-costs will enter Ukraine. Completely. Right now they are here as well. WizzAir became a real low-cost for the fear of Ryanair. There are some changes in pricing policy. It's not right to say the names. But I hope that the flagship of European low-costs – Ryanair – will be the first.



**Kyryl Novikov**

*Chief of Institute of Civil Aviation "Ukraeroproekt"*

Ukraine lacks a state-oriented approach. The Law on Concession of Infrastructure has not yet been approved. And the investor wants to know the exact terms of the concession. We have semi-destroyed or semi-operated airports, which really do not have much money. It's not building from scratch, which would be much more expensive. It's

a ready-made airport, you just have to invest in it. Here is an example: about 70 million euros will be needed to turn the airport of Uman into an airport similar to the one in Krakow. We found an investor in America that is ready to give this money. But he does not see the guarantees.

If a potential investor is ready to take almost a destroyed infrastructure with virtually zero residual value, the state should give a maximum package of simplification: minimum bank rates, land rental rates or deferred tenancy. If they do not, then which investor will come? They have not yet built a new terminal, but every month they must pay \$20 million for the land. This is how much the Zhulyany airport pays to Kyiv. Of course, under such conditions, no investor will come.

# UKRZALIZNYTSIA

## THROMBUS OF UKRAINIAN ECONOMY?

**Volodymyr Omelyan**  
*Minister of Infrastructure  
of Ukraine*

At the moment, we do not see any positive developments in the context of the reforms of Ukrzaliznytsia. There are some initiatives, including the launch of the corporate reform system, cooperation with international leading companies like General Electric. Hopefully, it will be Alstom and Bombardier. There were many beautiful words, slogans, promises. But all this turned out to be zilch, a headache, because Ukrzaliznytsia became the thrombus of Ukrainian economy, instead of stimulating its development. We have many companies or potential producers who can not transport their products. And this is a breakdown in budget revenues, in the creation of new jobs, in fact, it is a cutback in Ukraine's export potential. There is something to work on – locomotives, cars ...

**Yaryna Skorokhod**  
*Coordinator of the Logistics  
Committee of the European  
Business Association*

There are questions about the current efficiency of the company, in particular the shortage of cars and locomotive traction, interruptions to fuel supply, and failure to implement capital investment plans. In addition, companies report corruption at different levels of Ukrzaliznytsia. Still, there are no loud prosecutions concerning its termination.

**Yevgen Kravtsov**  
*Acting CEO  
of PJSC Ukrzaliznytsya*



We have five priorities for the next year.

1. To change the situation with the imbalance in the cost of cars of Ukrzaliznytsia and to create a level playing field for all. The price for our wagons should not be dumped. This will reduce the possibility of corruption and will allow investors to invest more in the wagon park.
2. Solve problems with the locomotive park. We have already begun negotiations and, I hope, we will get the first locomotives of the new model from the world producers next year.
3. Continue the program of renovation and construction of cars of Ukrzaliznytsya until we see that the private sector invests enough.
4. Modernize the infrastructure. On the Mariupol direction, which is now extremely important for the country, and on other problematic directions. Hopefully, next year we will begin work on electrification in the direction of Mykolaiv ports.
5. Launch a separate direction – UZ Cargo. The point of contact with the client should be consolidated into a single vertical, which will deal with logistics and solving all issues. Most European railways operate this way. I think this is the right approach for Ukraine as well. This will be a separate branch, and then we will see. Perhaps, it will separate from the Ukrzaliznytsya into a dependant enterprise according to the German model.

Ukrzaliznytsya is very promising for investments. The most important thing is the high marginal profitability of the rail industry. The second one is a small share of foreign companies represented in it, which have many competitive advantages over national ones. The third component is the high potential of the Ukrainian railway transport market both in terms of transportation demand and in terms of technical cooperation, renovation and technology demand.

There are risks associated with the negative reputation of Ukrzaliznytsia, which has been formed as a result of many years of corruption. There are also issues concerning the bureaucratic work of rail transport. However, we already have a corporatization. This has greatly simplified the format of potential cooperation.

There are serious intentions from foreign companies to supply their products to Ukraine. But I personally believe that the policy of the company is such that it is necessary to shift the emphasis on supplying products for the allocation of production facilities in Ukraine. It's more complicated. Both for us – to attract foreign investors, and for them – to take such steps.

There is already public information about certain successes in negotiations with General Electric. Ukrzaliznytsya cooperates with Hyundai Corporation of high-speed passenger trains. There are many directions where foreign companies can and should go to work in Ukraine.

**Yaryna Skorokhod***Coordinator of the Logistics Committee  
of the European Business Association*

The dialogue on tariff growth has lasted from the end of 2016 – beginning of 2017. The European Business Association did not support the increase. What is the reason? There are no reports on the use of targeted funds.

**Yevgen Kravtsov***Acting CEO of PJSC Ukrzaliznytsya*

This direction, unfortunately, is extremely manipulative. Even the term is incorrect. This is not a "growth of tariffs", it is "indexation use". We are a state-owned natural monopoly. The cost of services is regulated by tariffs. Last time we indexed them one and a half years ago. During this time, all components of our cost increased from 10-15% to 50%. And without raising the cost of services for consumers, the activity is economically impossible.

But I'm not talking about raising, rather about indexing. If we take the beginning of this year as a starting point, then the industrial producer price index rose by about 15%. If the economy around us somewhat grows, then we need to synchronize the cost of services with the external environment, in order not to have a "thrombus" in the Ukrainian economy.

In view of this, it was decided to offer the Ukrainian business a surprisingly fair indexation of 15%. Or maybe it's unfair to us, because it's less than the price around. We, for example, do not mind influencing the cost of steel supplied to us, as well as the cost of tracks, wheelsets, electricity, diesel... But we do not have such a possibility. At the same time attention to the cost of our services is extremely close.

**Sergiy Vovk***Director of the Centre for Transport Strategies*

If you control 90% of the market, 90% of the park, and the conditions are such that it is unprofitable for a private operator to invest money in their car, you're unfair when you say that everyone is fighting for your cheap car.

This shortage of wagons is not a deficit as such. So it is perceived. In the Ukrainian case, this is the evidence of a lack of traction and poor maintenance of the park.

**Irina Dushnik***Executive Director of the Grain and Oilseed Committee  
of the European Business Association*

Ukrzaliznytsya introduced a new system of distribution of cars. It is often criticized for: there are attempts to penetrate the system, there are also questions about the corruption component of the innovation.

**Yevgen Kravtsov***Acting CEO of PJSC Ukrzaliznytsya*

Previously there was no risk of manual influence, because it had a manual effect. And we were always thrown at the fact that the distribution of cars took place under some unclear criteria. We have introduced an electronic distribution system that minimizes interference and it records itself. We are still finding its imperfections. This is a computer program, not an experienced logist. There is an operator intervention. We are also solving this problem. But the system removes a lot of questions: why? We have an automatic system. Now only questions about logic and distribution algorithm are possible. This can be fixed.

**ABOUT THE SOUTHERN SILK ROAD****Volodymyr Omelyan***Minister of Infrastructure of Ukraine*

We make every effort to ensure that the Southern Silk Road passes through Kazakhstan, Azerbaijan, Georgia, Ukraine and the European Union. The first container train, which will be moving in the near future and will transport the products of the EU countries to China, will pass through the territory of Ukraine. In fact, the most logical, fastest and cheapest way is through the territory of Ukraine, Russia, and further to Kazakhstan. But for us, the priority is diversification of risks in view of the unstable situation with Russia, which is an aggressor. We must understand: the Priority No. 1 is the Southern Silk Road.

**Tetyana Dmytruk***Director of the Logistics Department of FIALAN*

I have also seen the news about the train. Our company was trying to find out its price, customers were interested. But ... it was impossible to do that.

In essence, they launched it once to take pictures. And that's all. It is impossible to buy seats on it. We phoned the agency: clarified when the next train was, how to get on it. But we saw that in fact it did not work. Currently, all China-Europe transport connections are through Brest. That is, China-Kazakhstan-Russia-Belarus, then Poland and exit to Germany-Austria. In Europe and in the post-Soviet space, the tracks are different. At the Brest station there is an overload of containers from the "Soviet" to the European one. The Brest railway junction earns well on this. Because all the streams, and this is a few trains a day, go to Europe through Brest. They do not go through Ukraine in general, and even somehow to turn from Brest to Ukraine is also a big problem. No one wants to get in contact, cooperate. We must first bring the goods to Poland, dismantle them there, load either on the track, or in the car, and only then transport to Ukraine. In general, there are a lot of such roundabouts. Everyone bypasses us.

**ABOUT THE EURO-CLASS ODESA-KYIV-LVIV****Volodymyr Omelyan***Minister of Infrastructure of Ukraine*

Today we are working with the EU on a Euro-track that has to connect Odesa-Kyiv-Lviv with the exit to Poland. Potentially, after that, it may be Kyiv-Kharkiv. This will open the ability to run train with the appropriate speed on the new infrastructure. In our opinion, the load should go at a speed of 120 km/h, not 30-40 km/h, as it is now. People should travel at speeds of 200-350 km/h, not 100 km/h. I have no doubt: when there is an alternative to going to the airport, spending time, passing the security, flying an hour to Odesa, and then getting out of the airport, which is an hour and a half in a train from the city center to the city center... I think people will definitely choose the train.

**Oleg Mistyuk***CEO of Kyiv Investment Agency*

In spring in Seoul, with the board of directors of Hyundai Rotem we discussed the construction of the fourth branch of the metro to Troeschyna. On concession terms. The question arose – what should the tariff be? And it will be, let's suppose, 18 hryvnias. How to balance it? Now you can get from Troyeshchyna to the city center with two or three transfers for 10-12 UAH. On traveling on a new branch of the subway you can set a tariff of 10 UAH. But not 18 UAH, because the demand will be low. Accordingly, Hyundai Rotem formulates clear questions: who guarantees the amount of passenger traffic? Who will fill the delta of UAH 8 between the price of a pass for a passenger at UAH 10 and a financial calculation of UAH 18 within the next 30 years? Will the city be able to pay a subsidy to the concessionaire throughout this period? With what resources? And what about currency risk? Without financial planning, creditability rating, confirmation of the stability of the municipality to speak with Hyundai Rotem about the branch of the metro is not seen as realistic. And any infrastructure industry that needs subsidies and subventions will face this.



# AGRO-INDUSTRIAL COMPLEX

## UNDERVALUED MARKETS, OVERPRICED LOANS AND CLOSED LAND MARKET

Products of the agro-industrial complex make up 41.7% of Ukrainian exports. Such are the results of 9 months in 2017. For many years, Ukraine has been included in the list of leaders of world exports of agricultural products – oil, nuts, grain. A striking achievement for the country in 2017 was becoming one of the TOP-5 suppliers of butter and honey to world markets. Ukrainian honey now constitutes 10% of the world market.

Ukraine has considerable potential as an exporter of fruits and berries – raspberries, blueberries, apples, cherries and products of their processing. This is assured by Olga Trofimtseva, the Deputy Minister of Agrarian Policy and Food of Ukraine. No less important for the ministry is the need to increase the volume of red meat exports.

Importers are expanding their range of interests in Ukraine. India, Egypt, Spain, the Netherlands have substantially increased the volume of imports of agricultural products. These are large and important markets, with a strong potential for expanding the presence of Ukrainian producers. China completes the top five of our major partners in agricultural trade. Economic and Commercial Counselor of the Chinese Embassy in Ukraine Liu Jun is convinced that China's demand exceeds any expectations.

However, some external markets remain undeservedly underestimated. These are the countries of Africa, the Middle East and the high-margin Asian markets such as Japan, Singapore and South Korea. It is important that the exporter's focus is gradually shifting in their direction.

Problematic conditions for the development of the industry may well lead to a significant weakening of the position of the Ukrainian producer and exporter.

This year, strict control over the weight of motor transport has been introduced. The grain market has faced the problem of the lack of locomotives and grain carriages, as well as the imperfect operation of a new electronic system for their distribution. The level of infrastructure development does not meet the needs of the Ukrainian exporter, in particular due to the difficulty of delivering export produce to ports.

Among other obstacles to the development of the industry is the lack of access by small and medium-sized producers to cheap credit money. The absence of free agricultural land market does not contribute to attracting large investments in the agro-industrial complex. Obsolete grain storage standards impede exports.

We talked about these and other issues with the Executive Director of the EBA Grain and Oilseed Committee Iryna Dushnik, former Minister of Economic Development and Trade of Ukraine, investor Aivaras Abromavichus, Director of the public association "Millers of Ukraine" Rodion Rybchinsky, Ambassador of Iraq to Ukraine Bakir Ahmad Aziz Al-Jaff.

State support for exporters is a priority for line ministries. The considerable hopes of the Ministry of Agrarian Policy and the Ministry of Economic Development are put on the effective work of the Export Credit Agency, which will fully work starting from next year. Trade representative of Ukraine Nataliya Mykolska says that for its productive work, a number of changes to the relevant law is needed. She assures that the work on the changes will not prevent the agency from being launched.

In order to increase the access of Ukrainian goods to EU markets, the Ministry of Economic Development and Trade initiates an assessment of the Free Trade Agreement in cooperation with EU.

Despite the problems, over 9 months of 2017, Ukraine has increased the volumes of export of agricultural products against the corresponding period of the last year by 24.3%.



**Olga Trofimtseva**  
Deputy Minister of Agrarian Policy and Food  
of Ukraine on European Integration

# PRIORITY MARKETS AND EXTENSION OF TRADE RELATIONS

**Ukraine holds world leadership in exporting agricultural products – sunflower oil, nuts and grain. Has Ukraine managed to keep this leadership according to the interim results of 2017? Have any new products been added to the leading product items?**

Ukraine is a leader in world oil exports, accounting for one third of the world market. We also hold leading positions both in the production and in the export of grain. We see a significant increase in exports of flour, butter and spreads. To a large extent to the European Union. This example shows how successfully our producers and exporters are learning to react to changing political and market conditions.

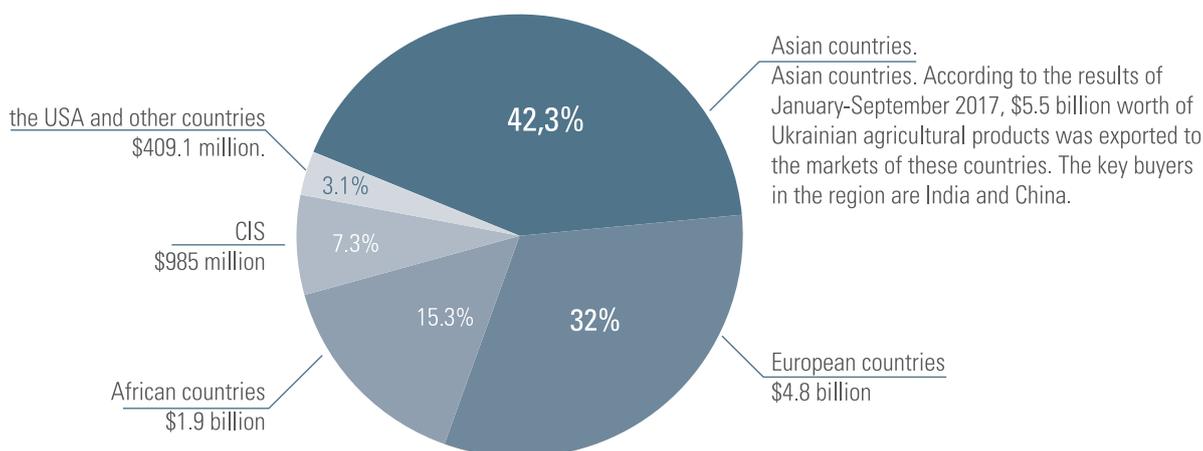
It is also important to name products that still have an inconsiderable share of our agrarian exports, but they have a great potential to become true export hacks. For example, honey. Today, Ukraine covers around 10% of world honey trade with a tendency to grow.

I also see the great potential of Ukraine as an exporter of fruits and berries – raspberries, blueberries, apples, cherries as well as products of their processing. If we manage to open up the Chinese market for them, it will be a powerful impetus for producers to invest in production and increase exports.

Yet, Ukraine still does not produce enough red meat. But state support is gradually redirected to livestock. So I hope that soon, not only poultry, but also beef, lamb, and other types of meat will be extensively represented in the export structure.

**What markets is the Ukrainian exporter of agricultural products currently targeting? The share of what countries is undeservedly low in our export structure?**

The regional structure of Ukrainian exports of agricultural and food produce has the following shape:



The priority task of the Ministry of Agrarian Policy is diversification of the commodity structure of Ukrainian agrarian exports and the opening of new markets. Therefore, the next "in focus" for opening is countries with high-margin markets: South Korea, Singapore, Hong Kong, Japan and the Gulf countries.

In view of this, it is possible to distinguish high-priority, but underestimated markets:

1. Africa. In addition to Egypt, which buys a lion's share of our agricultural products, there are still many countries to be considered – Kenya, Tanzania, South Africa, Angola, Congo, Ethiopia, Morocco. Our visit of Tanzania with Nataliya Mykolska with a trade mission was the first visit on the government level during 25 years of Ukraine's independence. It is clear that with such a level of activity, it is impossible to talk about opening the market.
2. Asia (except China and partly India). These are high-margin markets with considerable purchasing power, such as Japan, Singapore and South Korea. Our manufacturers and exporters are less afraid of the difficulties in such markets than they used to be. For example, Ukrainian companies will be presented at the large FOODEX 2018 exhibition in Tokyo. We, from our side, are working towards opening these markets for different product groups.
3. Middle East. Kuwait, UAE, Saudi Arabia and more complicated – Lebanon and Iran.

On the opening of markets we are working in the following way: first, we get an impetus from business, then we coordinate all important certification issues with our DPSU, communicate with representatives of the governments of relevant countries, sign bilateral agreements on access to markets. Later, additional steps may be taken by importing countries: clarification of requirements, publication of lists of exporters with access to the market, etc. And then you are welcome to start your work. From the latest examples we have China, the opening of the market for grist and press cake. But the work was complicated and time-consuming.

### **What are the state-provided financial incentive mechanisms for exports that you consider to be the most effective?**

First of all, we succeeded in establishing an automatic, more transparent VAT refund system for exports.

Secondly, I hope that next year the Export Credit Agency will work. At least, its pilot version. This will be a real support tool for the exporter.

In addition to funding, information and education is an important element of support. Therefore, systematic informational and educational work done by ministries, the Export Promotion Office and donor projects should be strengthened, especially in the regions. Without this, neither the culture of doing business or the approaches to it are possible to be changed.

We have programs for repaying interest rates on loans. Sometimes in the regions, the money even remains unused because farmers, first of all, do not trust and do not want to get involved with state support because of their negative experience. Secondly, they do not know about such support programs as, for example, partial compensation for the purchase of machinery that was produced in Ukraine.

For the following year, a separate program of support for small farmers and cooperatives is planned. At present, the mechanisms of distribution of 1 billion UAH allocated to it are being developed. I believe that this will also be an indirect support for exports, because it makes sense for small farmers to enter external markets through mergers. This is easier in terms of both organization and finance.

### **How successful is the project to support exporters through the introduction of the position of regional agrarian attache?**

The project is controversial; some people disagree as for its necessity. But I am a pragmatic person and I believe that it will have an effect. If not, we do not need it. The leading agrarian exporters – the USA, Germany, the Netherlands – in various forms have an institute of agrarian attaches in key or in all regions of the world. And to call these countries a raw appendage is by no means possible. I hope next year we will be able to talk about at least one such pilot project. I see support and understanding from the Ministry of Foreign Affairs.

### **What conditions does foreign business need for a decision to invest in the Ukrainian agroindustrial complex to be made? Does the absence of free land market affect the mood of investors?**

For investors, it is not so much the presence or absence of land market that is decisive, but the stability of the business environment. For example, I recently met with a Turkish company that wants to invest in certain sub-sectors of the agrarian sphere. They are ready to take the land for a long term lease. The main thing that they were interested in was information about the planned tax changes, privileges, available industrial parks with special conditions, tax holidays for foreign investors.

The Ukrainian agrarian sector is attractive for foreign companies. Its rational regulation is important. Its absence from the state's side is a great field for manipulation. My personal conviction is that deregulation is cool, in some sense I am a Libertarian. But smart regulation and effective control should be mandatory. The investor thinks this way.



**Liu Jun**

*Economic and Commercial Counselor of the Embassy of the People's Republic of China in Ukraine*

For five years, China has remained a strong trading partner of Ukraine. Although the potential of cooperation is not completely disclosed. In 2012 the volume of trade was \$10 billion, but this year it's \$7 billion.

The Chinese market is constantly open, especially for agricultural companies. After starting to import maize, barley and soya, since 2015, China has been importing Ukrainian dairy products. In 2017 we discovered Ukrainian beef, beet pulp, and sunflower oil cake. Today, 90% of sunflower oil in China is from Ukraine. Competitiveness depends on the type of imported products. If we are talking about quality and price, then it's good that Ukrainian products are of high quality and do not contain genetically modified organisms.



**Bakir Ahmad Aziz Al-Jaff**

*Ambassador Extraordinary and Plenipotentiary of the Republic of Iraq to Ukraine*

Iraqi businessmen and enterprises are keen to invest in Ukraine, especially in the agro-industrial sector. Unfortunately, bureaucratic barriers are hindering the realization of this desire.

We also want to increase the volume of trade between our friendly states. However, there are certain obstacles that must first be overcome. In particular, to simplify the procedure for obtaining entry visas to Ukraine by Iraqi businessmen and companies, to change attitudes towards them at Ukrainian border checkpoints and airports. In addition, it is important to encourage businessmen and enterprises of Ukraine to participate in commercial exhibitions held annually in Iraq.

# PROBLEMS OF AGRO-INDUSTRIAL COMPLEX LOGISTICS, LOANS AND CLOSED LAND MARKETS

**Irina Dushnik**

*Executive Director of the Grain and Oilseed Committee of European Business Association*

Last marketing year was marked by record figures of the grain market over the time of independence: 66 million tons of grain were harvested, of which almost 45 million were supplied to foreign markets. There are predictions that in the year 2020 grain exports may reach up to 60-70 million tons.

There are problems along with success though. This year the chronic illness of the sphere was agro-logistics. The restriction on the weight of motor transport was introduced, which resulted in an increase in the volume of rail transport. Grain market faced the problem of the lack of grain carriages. 90% of the current park is almost worn out, requiring replacement or overhaul.

At the highest level, EBA made suggestions to enable private business to invest money in the purchase of grain carriages. But for this business it is necessary to create an economic interest: at least in the form of a discount on the transportation rate with their own carriages by 50% against the general park. So far, there has been no decision on this issue. But even it will not solve all the problems. Indeed, along with the problem of the lack of grain carriages, there is also a shortage of locomotives that should carry them. Private business will not invest in locomotives – this is the task of the state. Moreover, the lack of fuel is becoming a traditional problem.

Now Ukrzaliznytsya has introduced a new system of distribution of carriages. It is often criticized for this: there are attempts to penetrate the system, there are also questions about the corruption component of the innovation.



Grain Market is export-oriented. We export more than half of what we produce, and we forecast that by 2020 exports will have grown at least by 150%. Therefore, the issue of infrastructure, agro-logistics and phytosanitary issues will be sharply raised. EBA has long emphasized that phytosanitary procedures need to be aligned with the EU rules. In recent years, it has been possible to achieve a lot in the phytosanitary direction: simplified and accelerated procedure for issuing quarantine and phytosanitary certificates. However, this is not enough. We would prefer to see private laboratories in the process of phytosanitary examination. Business wants them to take the grain, make tests, give conclusions, and pass them on to the state phytosanitary officers. And those, in turn, will issue phytosanitary certificates for export on the basis of those conclusions. At the moment, the market is monopolized by the state structure. Currently, the bill No. 6673 has been registered, which implies the possibility of introducing private laboratories in this segment. We hope it will be adopted.

Grain exporters also suffer from the moral obsolescence of internal rules for grain storage. For example, wheat can be stored and transported strictly sorted within the six classes. However, we export in accordance



**Yevgen Kravtsov**

*Acting CEO of PJSC Ukrzaliznytsya*

The question is not so one-sided, it is not just that we lack the cars or locomotives. It is complex.

Indeed, the agricultural sector is more complicated than, for example, with metallurgical transportation. It is so, because there is a seasonal nature in it, which coincides exactly with the peak of road works and other transportations.

Yes, there is a park shortage. But the shortage of a cheap park. The cars of Ukrzaliznytsya are 3-6 times cheaper than private ones. There are a lot of logistics companies that take them, and then give them to customers and have an extremely high margin for this. We are trying to prevent this discrimination. When we enter the market and are at the same level with private companies, the issue of the shortage of Ukrzaliznytsya cars will disappear. For we will all be on an equal footing. And it will not make sense to look for our cheap carriage, when the market is the same. Only 30% of the total cargo, which is transported in gondola cars in Ukraine, goes in the carriages of Ukrzaliznytsya. 70% is a private park. So, talking about the shortage of Ukrzaliznytsya cars ... Well, of course! We are 5 times cheaper! And everyone is hunting for it.

The number of parks compared with last year has increased by 3000 cars due to the private park and the repair of the existing ones. But since the spring of this year there was a problem of traction. Railway equipment has a long period of operation – 30-40, even 50 years, but at some point it is no longer subject to fixing holes, it is necessary to replace the driving and carrying parts. We are on the verge of this problem. But we do not have enough money to solve it, because we have not changed the value of our services marketably.

It is with the locomotive park that we are in a situation where diesel locomotives are extremely worn out and we need to buy new ones. Therefore, we communicate with General Electric and other manufacturers in order to replace and upgrade the park quickly. It will be done.

I also see a lot of problems in load capacities. Large elevators can load up to 50 carriages a day. But in the most problematic regions, elevators load as few as 3. That is, if in one place we can send one train once a few days, load it, take it to port and bring it back, in other cases we have to deliver and carry 2-3 wagons every day. This is a completely different performance. Therefore, logistics may be more expensive than in the place where the elevator serves 100 wagons per day. The easiest way is to drop all the problems on the railway and say that it does not cope with the task. I often hear it. Especially over this year. Ukrzaliznytsya turns out to be blamed for everything. This is the wrong approach.

**Irina Dushnik**

*Executive Director of the Grain and Oilseed Committee  
of European Business Association*

with other standards where there is no such distribution. There is simply a specific list of quality indicators that a particular party has to meet. This is fixed in export contracts. To achieve compliance with these indicators is possible exclusively by mixing several classes of grain. But to form such a lot is impossible at any of the grain storages.

For three years, the members of the EBA Grain and Oilseed Committee have been pushing for the idea of mixing grain everywhere – both on the territory of linear elevators, in seaports and at river terminals. After all, the instructions of the Ministry of Agrarian Policy, which regulates this process, have long been morally obsolete. Moreover, conscientious exporters find themselves in unequal competitive conditions with those who practice grain mixes of different classes contrary to domestic regulations.

**Olga Trofimtseva**

*Deputy Minister of Agrarian Policy  
and Food of Ukraine  
on European Integration*

Currently, the Guidance on grain accounting is being developed, which allows mixing grain at port elevators. But this is a short-term solution to the problem. According to the Ministry of Agrarian Policy and the SBGS, it is necessary to follow the world standards of grain grading and to unify with the largest number of markets.

**Rodion Rybchinsky**

*Director of the public association  
"Millers of Ukraine"*

Exports of flour grow by 20% each year. Ukrainian millers plan to multiply it by five in the near future.

The only question is how possible it is. After all, Kazakhstan satisfies the needs of the Asian market, Argentina works on Latin America's multi-million dollar market, in Africa we compete with France. The priority markets for Ukrainian exporters are the Middle East and North Africa, and we are actually trying to get them from the most active players in the market of flour – Turkish manufacturers. And even that happens with the help of price dumping. This is due to the fact that the Turks are working with our own grain. But Turkish producers have a lot of preferences from the state, while Ukrainian flour millers operate on one hundred percent market conditions without state aid. There are other fundamental problems hampering the development of the industry:

- 1) the limited access of flour millers to leading technologies and equipment of the fifth and sixth generations;
- 2) the lack of a policy for stimulating agricultural producers to grow high quality grain, suitable for the production of high quality flour, and not only for export;
- 3) very expensive loan capital.

**Kateryna Rozhkova**

*Deputy Governor  
of the National Bank of Ukraine*

If we talk specifically about exporters, then there are available currency resources. Despite the fact that they are still too high in comparison with European countries, for Ukraine – they are the lowest during the existence of commercial banking system.

The rate, of course, has increased, because we target the level of inflation in advance. We do not react, but target. Therefore, this is important for all, including exporters, banks and consumers. Keeping inflation in the corridor is a guarantee of financial stability. In addition, we expect that in the first half of 2018 we will enter the projected inflation range. So, we hope that today rates will be fixed, and in the first half of 2018 will be reduced, and resources will become more affordable.

Banks want to lend and even know where the loans should go. But when you have 50% of non-working assets, and you cannot do anything with these borrowers, because you lose the rights with bankruptcy, how much are you willing to give new loans?

**Aivaras Abromavichus**

*Former Minister of Economic Development  
and Trade of Ukraine, investor*

Bank loans have insanely high liquidity. Because the number of deposits has increased, and the number of conscientious solvent borrowers has decreased with the crisis. The trust in the banking sector after cleaning has increased, and banks have lowered the deposit rate. Accordingly, there was an opportunity to lend to business at more attractive rates. Today, honest and transparent agribusiness, like any other, especially those with export dollar revenues, can take a bank loan at a rate of 5% per annum in dollars. This is something that has not happened in Ukraine's history. When someone says that there are no loans – this is not true, there are.

Those who work opaquely, do not carry out international reporting, pay wages in envelopes, sell for cash, – do not have the opportunity to come to the bank and get loans at attractive rates. You just need to do business properly.

There are many factors hindering the development of agribusiness. First of all there is no free agricultural land market. And if you do not own land, you can not dispose of your constitutional right to do with it anything you want – to sell, rent, etc., you will not invest in it.

On these wonderful chernozems it would be good to set up irrigation systems. In Ukraine it is quite easy to reach the yields of not 65 million tons, as now, but 100 million tons. Also around your lands it is sensible to build processing facilities. But you will not do this, because it is expensive, and the land is not yours. Any restrictions, when there is no free market, result in our lagging.

**Igor Mazepa**

*CEO Concorde Capital*

If the land market starts to function properly, we will clearly see an increase in the inflow of investments, and not only in agriculture, but also in related industries, as well as in the financial sector (lending to agricultural production). Investors like bright signals. The opening of the land market can become such a signal, a turning point in the perception of the country.

# STATE SUPPORT FOR

# EXPORTS



**Nataliya Mykolska**

*Trade Representative of Ukraine, Deputy Minister of Economic Development and Trade of Ukraine*

## ABOUT THE EXPORT CREDIT AGENCY

According to the law, the government has the right to establish an order of introduction of certain services by the Export Credit Agency (ECA). The concept developed by the Ministry of Economic Development and Trade has established: the first stage of this introduction will be the provision of insurance services and reinsurance of exporters from the risks of non-payment and financial losses. The state budget project for 2018 has already set the budget for ECA. These funds can be used only for the formation of the authorized capital of the agency. If you have funding, you can start creating a legal entity and then launching ECA. But for its full functioning it is necessary to make certain changes to the law. Because the bill was passed through several stages, government and parliamentary amendments were introduced. But the work on these changes does not prevent the work of the agency itself. We hope these processes will take place in parallel.

The next stage will be the establishment of cooperation with OECD, which has considerable experience of export credit agencies. Expert support is important to us. After all, in Ukraine there are few experts who have the experience of creating and launching such institutions.

**Are alternative free trade areas considered options for strengthening the presence of Ukrainian producers in European markets? Can Ukraine focus on Britain's approach in this regard? Without considering any option for membership in the European Economic Area or the option of concluding an EU-FTA, the British government is inclined to pay around 10 billion pounds a year to the EU budget for maintaining market access. If the benefits of Ukraine to trade in the EU markets, provided they have unobstructed access to them, are huge, then should we not consider how to apply this approach?**

In fact, the form that the United Kingdom wants to choose is not to have a membership in the EU, not to have a free trade agreement, but to pay 10 billion pounds to the EU budget and to have access to the EU market. There is no such form in international trade. The WTO provides for the following forms of economic integration: the most favored nation, free trade zone and customs union. There are several variations in each of them, but other forms are not given. Therefore, the United Kingdom will work with the EU in one of the forms set by the WTO.

Currently, the UK is the focal point for our exports in line with the Export Strategy of Ukraine and one of the most untracked markets for Ukraine according to the methodology of the International Trade Center. With this in mind, we are closely following the negotiations between the EU and the UK,

and also consult with both the EU and the United Kingdom on understanding the further establishment of trade relations that would be most beneficial for the Ukrainian exporter. Therefore, once the issue of further relations between the EU and the UK is resolved, Ukraine will discuss with the latter not only the current regime, but also its expansion, so that more Ukrainian goods will appear on the British market. For our part, we can also open the market for the UK, importing from there does not pose a major threat to us. Our task is to maintain good trade relations, and the best conditions for increasing Ukrainian exports. Because exports are not about good relations. Export is about Ukrainian business having an opportunity to earn for itself and for the country. And our task is to create conditions for such earnings.

## ABOUT QUOTAS FOR UKRAINIAN EXPORTERS

The Free Trade Agreement between Ukraine and the EU has been operating in a mode of preliminary application for less than two years. It is important that from October 1, the additional trade preferences that the EU provided to Ukraine were launched. At the same time, grain quotas at the request of Ukrainian grain traders will be available from January 1, 2018. The EU has already increased quotas for some products. But it should be borne in mind: quotas are not prohibitions, they allow the duty-free import of certain goods into the EU territory.

Of course, given the fact that when the Agreement was reached (since then, it has been a long time), the provisions adopted on the basis of the negotiation process are in line with the conditions of access to the market in 2011. The tariff part was based on the statistics of 2005-2007. And since then, the situation has radically changed not only in our country, but also in global trade. So now we are talking about the fact that the Agreement does not fully correspond to the reality we have in trade relations with the EU.

We need to work together with the European Commission to evaluate the implementation of the deep and comprehensive free trade zone regime and its impact on the economy of the parties. Why a joint assessment? It should become the basis for determining the further direction of deepening our economic integration into the EU: its results should be sufficiently thorough for both us and our partners in European capitals. We do not say that the evaluation has to satisfy someone. It should establish a holistic plausible picture, created not yesterday, but today, given that it will be used tomorrow. 'Joint' does not mean the Government of Ukraine and the European Commission. This means an independent consultant who will work on the basis of joint agreed data. In order for us and our European partners to sit down at the negotiating table in 2021, we must formulate a task for assessment in 2018, implement it in 2019 and, based on the results achieved, in 2020 to form the stance of the state.

Today, the state of our trade relations does not correspond to the state of trade in 2007 or even in 2011. Therefore, it is important to conduct a dialogue with the European Union in order to increase the access of Ukrainian goods to the EU market. It is not just about quotas, but also about the goods on which we have a long period of cancellation of duties. It is important to supply to the EU not only raw materials and goods of primary processing, which we have under quotas, but also increase the supply of goods with added value.





### ***TRUMAN Agency***

TRUMAN Agency team brings together expertise from various fields: strategic planning, PA&GR, lobbying and international communications.

The Agency takes into account the current vector of Ukraine's development to conduct effective campaigns aimed at solving problems of Ukrainian business and opening new perspectives for the foreign companies in Ukraine.

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