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DOING BUSINESS IN UKRAINE

Doing Business in Ukraine

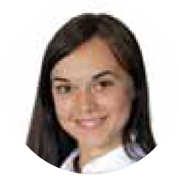
Brian Bonner
Kyiv Post
Chief Editor

Welcome to the second annual Kyiv Post Doing Business in Ukraine guide. Despite successes, the outlook for the nation still remains tentative. A new government that came to power in April is expected to build on the reforms enacted by the previous one.

But the nation still has made little progress in improving rule of law or punishing corruption. A new wrinkle came with the release of the Panama Papers, showing that the world's elite – including President Petro Poroshenko – like to do business in offshore tax havens. De-offshorization and de-oligarchization aren't heard much from the president's lips lately, but an international effort is under way to combat these secretive ways of doing business.

Experts also see many bright spots in Ukraine's economic future.

For starters, cheap Western credits, led by the International Monetary Fund, might resume soon. The National Bank of Ukraine continues to close badly run banks and bring more transparency to the opaque financial sector. Bringing energy prices to market levels on May 1 eliminates a major source of corruption and waste. The prices also help cut dependency on Russian energy imports. Ukraine's labor force remains cheap by international standards. Taxes have been cut in key areas. The government is promising again to sell or close most of its 3,000 state-owned firms, sources of private wealth for insiders and public debt for the rest of us. ProZorro, the online system for making public purchases competitive and transparent, has already saved millions of taxpayer dollars. In good times and in bad, the agricultural and information technology sectors keep humming along. And Ukraine is expanding its trade agreements. Besides the European Union pact that came into force in January, Ukraine is close to signing a free trade deal with Canada, where a Ukraine-Canada business forum will take place in Toronto on June 20. So, all in all, life is looking up in many ways.



Alyona Nevmerzhytska
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The Kyiv Post launched Doing Business in Ukraine last year. It became a huge success and the most-read publication of the year with distribution in Washington, D.C., London and other cities. This motivated the newspaper to publish the guide annually to promote Ukraine's image abroad as well as the nation's abundant business opportunities – and challenges.

This year, we focus on key sectors – chemicals, energy, banking, agriculture, telecoms, automotive – and interview key business and government leaders. We hope you enjoy this 80-page guide giving the state of play in Ukraine's economy and please let us know how we can make it better next year. Doing Business in Ukraine 2016 will also be available in the Kindle format on Amazon. We thank our section partners – CITI, lifecell, METRO, Ukrplastic, Vasil Kisil and Partners, Zammler and all of our advertisers and subscribers for supporting independent journalism in Ukraine.

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On the cover: A view of Parus business center from the top of Gulliver shopping mall on May 26 in Kyiv. (Volodymyr Petrov)

Contents

A man plows his garden in Sumy Oblast on April 26. (UNIAN)

Why invest in Ukraine?

ANDERS ASLUND

Those who have invested in Ukraine so far have not been very happy with their return.

At present, Ukraine's gross domestic product is about $85 billion, approximately one-eighth of Poland's GDP. The return on investment has been in proportion to that.

Will things change?

You can never be sure, but like before, Ukraine holds great promise. After all, this country is located right in the middle of Europe. It has a well-educated and underemployed labor force. And whatever else you call the Ukrainian economy, it's still a market economy.

While that sounds good, what incentive is there for foreign or Ukrainian investors to pour money into the country at this time? What has changed?

The answer is that a great deal has changed. Let us focus on 10 major positive changes, although we won't fail to note the problems as well.

10 positive changes

1 To begin with, Ukraine now has a deep and comprehensive free trade agreement with the European Union, which means that the country has considerable access to the vast European market. At present, the EU market is actually 20 times larger than the Russian market, so it is hardly real competition. The focus should instead be on making sure that the EU market is truly open, and that Ukrainian companies focus on it.

2 In its Association Agreement with the EU, Ukraine has sensibly committed to adopting hundreds of good laws that the country needs to generate a good business environment. The EU will relentlessly push for their adoption and implementation. The question, however, is whether Ukraine is being offered sufficient incentives by the EU to put these laws on the books.

3 In 2015, Ukraine managed to stabilize its financial system. Ukraine's annualized inflation has fallen sharply – from 61 percent in April 2015 to 9.8 percent in April 2016. Central bank interest rates are set to fall accordingly. From the third quarter of 2016, commercial lending rates should fall to 20 percent. With that, new credit issues can start, fueling investment in the real sector.

4 Practically nowhere else in Europe can an investor find as good and qualified workers for such low wages. Incredibly, Ukrainian wages are officially only one eighth of Polish wages. The real difference might be somewhat less, because of the Ukrainian habit of paying additional unofficial wages, but production in Ukraine is frankly as cheap as it gets. This will not last for long, hopefully, but this remains an incentive for manufacturing and services to move to Ukraine.

5 For a long time Ukraine maintained absurdly high taxation of labor, with a payroll tax of no less than 45 percent, close to the highest in Europe. Thanks to the new tax laws promoted by the former Ukrainian government, the rate has now been halved to 22 percent. This is vital for honest foreign investors who are not prepared to pay additional under-the-table wages in cash. This should lead to a substantial legalization of wage payments.

6 Ukraine has adopted a realistic floating exchange rate. As a consequence, the country no longer has a cumbersome current account deficit, and Ukraine should soon be able to liberalize its draconian foreign exchange regulations, which harm foreign and domestic businessmen alike.

7 Ukraine has introduced the electronic public procurement system ProZorro. This should allow all kinds of enterprises to participate in public procurement – previously a market open only to those with the right connections to state officials.

8 The greatest concern of foreign investors who export from the country has been the refunding of value-added tax. Officially, an automatic system has been introduced, and conversations with foreign businessmen suggest that the situation really has improved, even if there are still some flaws that need to be fixed.

9 Substantial deregulation has taken place. Much more needs to be done, but many regulations and inspection agencies have been eliminated.

10 The greatest positive change of all is Ukraine's extraordinary openness. No country is at the same time as corrupt and as open as Ukraine. Presumably this will help the nation to control corruption ever more. This openness offers foreign investors multiple opportunities to complain if something goes wrong – opportunities that rarely exist to the same extent in other countries.

3 problem areas

Needless to say, Ukraine also has some serious drawbacks for investors – mostly involving the poor judicial system.

1 Property rights are not secure in Ukraine, because neither prosecutors nor the courts work adequately in the least. As a consequence, big businessmen make sure the contracts they sign in Ukraine stipulate that any conflicts that arise are resolved in private arbitration courts abroad, usually in Stockholm or London. Ukraine has to establish an elementary domestic judicial system that can be used by small and medium-sized enterprises.

2 Contract enforcement does not work. Some big businesspeople in Ukraine still consider that they are above such trivial matters as paying for what they have bought. Ukraine desperately needs a judicial system that can impose real liabilities on those that do not pay.

3 The great underutilized resource in Ukraine is fertile agricultural land. If private sales of agricultural land were legalized, the price of land would presumably rise several times. Farms would be able to borrow substantial credits from banks using their land as collateral. Both agriculture and banking would take off in a fortuitous cycle.

Hope without illusions

Ukraine has never undertaken as great and substantial reforms as in 2015. This is the big difference. But it now appears that the reform tide is ebbing. Fewer reforms can be expected in the near future.

The reforms that are coming now are to a considerable extent being pushed for by the international community, rather than demanded by the Ukrainian government.

So far, these reforms are all going ahead, but the progress appears less secure than a year ago. Let's hope for the best, but without illusions.

Anders Åslund is a senior fellow at the Atlantic Council in Washington and author of "Ukraine: What Went Wrong and How to Fix It."

International Monetary Fund Country Representative Jerome Vacher on Nov. 8, 2013, in Kyiv. (Kostyantyn Chernichkin)

Vacher: Too soon to say whether IMF will restart lending program to Ukraine

BY BRIAN BONNER
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The International Monetary Fund talks a good game in telling Ukraine to combat corruption. But it may be a case of the bark being worse than the bite.

Anyone who expects the international lender of last resort to force out corruption in the law enforcement system, or order a badly needed overhaul of the general prosecutor's office or the courts, would be mistaken.

Such requirements are simply not part of the IMF's mandate or expertise, said IMF Country Representative Jerome Vacher in a May 27 interview with the Kyiv Post.

"We fully agree that these are key institutions in the fight against corruption. They are not the only ones," Vacher said. "There is a need to more substantially improve rule of law in this country and these institutions are at the forefront of that. In order for Ukraine to grow in a sustainable manner, we need a substantial improvement in the business environment and need to see a substantial reduction in corruption."

Other structural changes that the IMF seeks, Vacher said, are designed to reduce corruption, improve Ukraine's overall economic health and, ultimately, the living standards of Ukrainians.

All eyes are currently on the IMF right now as it decides whether to restart lending to Ukraine. Lending was stopped at $6.7 billion last year out of a possible $17.5 billion after "vested interests" – often a euphemism for oligarchs and their friends in parliament – in February triggered yet another political crisis by obstructing anti-corruption initiatives.

The winter backlash "from some of the vested interests, particularly in parliament, means those (anti-corruption) policies are starting to have an effect," Vacher said.

When the dust settled in April, Arseniy Yatsenyuk was out as prime minister along with a stable of reformers in the Cabinet of Ministers. In are Volodymyr Grosyman and new ministers who are being eyed warily. But with the Groysman government in place, the IMF could talk about restarting loans. An IMF mission came to Kyiv from May 10-18 to negotiate conditions.

Much more is at stake than just another $1.7 billion loan installment, most if not all of which will go to bolster Ukraine's hard currency reserves that stand at $13 billion. Many other Western institutions and governments, including the United States, European Union and World Bank, condition their aid programs on Ukraine winning the IMF's seal of approval.

Vacher said it's too early to say whether the IMF's 24-member executive board of directors, representing 189 nations, will approve the loan when it meets in July to decide the issue.

"There are a number of laws which are stuck in parliament and which aren't moving very quickly or don't make it to the agenda," Vacher said. "They are stuck at first reading; some are blocked in committees."

And exactly what are the IMF conditions?

Only the IMF – and perhaps some top government officials – know for sure. The full list of conditions are part of a draft memorandum that is not public yet and still under negotiation. Conditions that require a change in laws are known since they require approval by parliament. A final agreement with the IMF is signed by Ukraine's president, prime minister, finance minister and central bank governor.

'Capacity and willingness' to reform

Whatever the detailed requirements, the IMF decision may rest on one simple and subjective assessment: Whether Ukraine's political leaders have shown "the capacity and willingness to conduct reform," as Vacher put it.

That is one of the four criteria that Ukraine must meet under the IMF's "exceptional access policy." Besides capacity and commitment to implemetn IMF requirements, the other three criteria relate to balance of payments, sustainability of debt and prospects for regaining access to private capital markets.

The conditions give rise to a debate over what the IMF – and


Ukrainian Prime Minister Volodymyr Groysman, then Verkhovna Rada speaker, speaks with International Monetary Fund Managing Director Christine Lagarde on Sept. 7 in Kyiv. (UNIAN)

the Western donors – will and should do about Ukraine.

Many people have come to the conclusion that Ukraine's politicians are interested in undertaking only enough reforms to receive IMF loans. Some in this camp hope that the IMF, therefore, will impose stricter anti-corruption conditions and reject further lending until more progress is made.

Others, however, think that the IMF will wring whatever conditions it can get from Ukraine's politicians and keep lending because the West simply doesn't want to cut off Ukraine amid Russia's war and economic hardship.

Repeat: Fight corruption

The IMF has tried this year to jawbone Ukraine's reclacitrant authorities into fighting corruption.

On Feb. 10, IMF Managing Director Christine LaGarde issued this statement:

"I am concerned about Ukraine's slow progress in improving governance and fighting corruption, and reducing the influence of vested interests in policymaking. Without a substantial new effort to invigorate governance reforms and fight corruption, it is hard to see how the IMF-supported program can continue and be successful. Ukraine risks a return to the pattern of failed economic policies that has plagued its recent history. It is vital that Ukraine's leadership acts now to put the country back on a promising path of reform."

On May 18, when the IMF mission left Kyiv after reaching a staff-level agreement with Ukrainian authorities on policies needed to restart lending, Ron van Rooden, the IMF mission chief, said in a statement:

"Steadfast implementation of structural and institutional reforms is now critical to turn the recent recovery into strong and sustainable growth, with unwavering determination in the fight against corruption emerging as a litmus test for the government's ability to retain broad domestic and international support for its policies. It is therefore important that the authorities boost their efforts to entrench fiscal and financial stability, decisively enhance transparency and the rule of law, and reform the large and inefficient state-owned enterprise sector."

Prosecutors, courts

Given the IMF's tough and direct rhetoric on Ukraine's need to fight corruption, it's curious that the lender works around the edges – rather than, say, require Ukraine to rebuild its distrusted courts and prosecutorial system. One doesn't have to look any further than the IMF's home page to learn that one of its missions is to promote “sustainable economic growth.” Without rule of law, most economists say there can be no sustainable economic growth.

And there is no rule of law in Ukraine, where prosecutors and judges are corrupt and politically subservient, where an estimated $100 billion – or 10 percent of the gross domestic product – has been spirited abroad in the last decade and where no convictions for major financial cirmes have taken place.

While recognizing the importance of prosecutors and judges, Vacher said that the IMF simply doesn’t have the technical expertise or ability to monitor any overhaul of these insitutions.

So the IMF focuses on anti-corruption initiatives on the periphery – such as ensuring the independence of the new National Anti-Corruption Bureau of Ukraine and the National Agency for the Prevention of Corruption, which will monitor the disclosure of financial assets of public officials due Aug. 1.

One problem with these two agencies, however, is that they remain subservient to the nation’s discredited General Prosecutor’s Office and courts.

But Vacher said the IMF supports a number of policy and legal changes to combat money laundering and in other areas to reduce corruption in Ukraine.

“It’s important to see a lot of the policies we support or that have been implemented actually have an inpact on corruption in other ways,” Vacher said. “Essentialliy in a number of sectors we have seen some policies that have been quite effecitive in reducing cash flows that have fueled corrupton.”

IMF priorities

Among those areas:

Energy – The IMF backs the rise in energy prices to market levels, supports the dismantling or unbundling of state-owned Naftogaz and the creation of an energy regulator to oversee the sector. Yet, the reforms are only partially under way and the sector is “still full of corruption.” Even so, Ukraine has managed to cut its imports of Russian natural gas and cut the deficit of Naftogaz.

Banking – “We face a situation where there was no proper bank supervision” before 2014, Vacher said. The IMF has been a cheerleader of National Bank of Ukraine policies to crack down on related-party lending in banks, to close more than a third of the nation’s banks – the most corrupt and underfunded ones, to drop the fixed-exchange rate for the hryvnia, to impose controls to stabilize the currency and to force bank owners to identify themselves. “We had situations where some banks had two-thirds or three-fourths of loan portfolio to the owner, which in any country is not accepted and is a threat to financial stability,” Vacher said. The banking changes came at a big price – a steep devalution in the currency and more than Hr 70 billion, or nearly $3 billion, paid out from a taxpayer-supported public deposit guarantee fund. Moreover, no one has been prosecuted for bank fraud and deadbeat loans weigh down bank balance sheets. The IMF wants to see a return to sound lending practices. Curiously, the IMF never insisted on proper regulation of this sector in pre-2014 loan programs to Ukraine.

State-owned enterprises – "We need to see a cleaning of the sector," Vacher said. "It's another area where nothing was done for many years." The nation's more than 3,000 state-owned enteprises are sources of corruption and misuse of funds. The IMF wants to see privatization speeded up and transparent. The coming sale of the Odesa Portside Plant, a large chemical and fertiizer plant, will be a litmus test. Centrenego, a power generator, will be another one. State firms also need to hire professional managers and undergo audits that meet interenational standards, he said.

State Fiscal Service – The agency oversees tax collection and customs services. It is widely viewed as corrupt and many are pushing for the firing of its head, Roman Nasirov. Three proposed laws to overhaul the service are blocked in parliament's tax committee, Vacher said. Some blame the IMF for being part of the problem on taxes by not supporting deeper reductions in the payroll tax that supports the state's pension fund. The theory is that a low payroll tax will cut tax evasion. But Vacher said there's is no evidence that cutting the payroll tax in half – from 45 to 22.5 percent – led to any "significant deshadowing" of tax payments and, in fact, worsened the pension fund's financial health. Among other changes, Vacher said Ukraine should be "focusing on some particular key areas, particularly large taxpayers, for example, high net-worth individuals."

Pension reform – Ukraine's pensions suck up 14 percent of the nation's gross domestic product, compared to 2 or 3 percent of GDP in most European countries. The deficit alone runs a 7 percent of GDP and is financed by the state. This has to stop, Vacher said. Pensioners aren't happy either – most getting pensions of $50 a month. Ukraine needs a remedy that improves the funding of pensions, eliminates fraud, cuts privileged categories and directs most of the money to those who truly need the support, he said. Additionally, soe believe kraine needs to raise the retirement age – currently at 60 years of age for men and 57.5 years for women. "There are just too many pensioners in the system," Vacher said.

Off and on lending

Ukraine joined the IMF in 1992. It's even hard for many experts to keep track of all the times that Ukraine has tapped the IMF's low-interest financing. This is the eighth program, by Vacher's counts. Ukraine has a history of getting some loan installments to get through economic crises, then going off track by not meeting its commitments and getting the loans cut off.

Whatever happens, however, the IMF almost always gets its money repaid – to default on IMF loans would be economic suicide for a nation.

The IMF has also refused Ukraine's requests in the past. In 2013, for instance, Vacher said the IMF refused ex-President Viktor Yanukovych's request for renewal of the lending program because "we didn't see there was any sufficient capacity and willingness to implement reforms."

If Ukraine didn't lose billions of dollars a year corrupt and complex scheme by insiders, it wouldn't need any IMF loans at all.

The nation should know by July what the IMF thinks of its leaders capacity and willingness to reform in order to approve another $1.7 billion loan.

"We have to judge by the actions," Vacher said. "We can't speculate. That is why essentially we discuss in tranches and that is why in the past, when we saw there was no capacity and willingness to deliver on reforms, the (lending) programs unfortunately went off track."

Top 10 inflows of foreign direct investment in 2014

Country	FDI inflows (billions of dollars)
China	129
Hong Kong, China	103
United States	92
United Kingdom	72
Singapore	68
Brazil	62
Canada	54
Australia	52
India	34
Netherlands	30
Ukraine	0.41

Source: United Nations Conference on Trade and development (www. Unctad.org/fdistatistics)

Ukraine is low on the priority list for investors. Russia, at 16th, and Poland, at 20th, rank ahead, underscoring the need for Ukraine to combat corruption and improve its busienss climate.

Top 10 outflows of direct investment in 2014

Country	FDI outflows (billions of dollars)
United States	337
Hong Kong, China	143
China	116
Japan	114
Germany	112
Russia	56
Canada	53
France	43
Netherlands	41
Singapore	41
Ukraine	0.11

Source: United Nations Conference on Trade and development (www. Unctad.org/fdistatistics)

The U.S., China and Japan are the world's biggest foreign direct investors. But much of that investment is bypassing Ukraine as investors remain deterred by the nation's instability and poor rule of law.

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Workers produce insulin at an Indar factory in Kyiv on March 13, 2013. Indar is one of the biggest producers of the drug in Ukraine. (UNIAN)

Ukrainian drug companies rack up profits at expense of their customers and competition

BY ISOBEL KOSHIW
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In contrast to the sickly Ukrainian economy, many of the country's pharmaceutical companies are making healthy profits.

Ukraine's top pharmaceutical producer, Farmak, recently reported that it had almost doubled profits in 2015 compared to 2014, and in March the company announced a 61-percent increase in dividend payments to shareholders.

Likewise, Darnytsa – Ukraine's second biggest drug manufacturer – announced on April 25 that it had increased its revenues by 34 percent in the first quarter, and had earned a total of Hr 519 million ($20 million) thus far in 2016. According to the Ukrainian State Statistics Service, the overall output of the domestic drug indus-

Ukraine needs to develop an “ecological worldview”

Irina Mirochnik

President of PC UKRPLASTIC, President “Save Food-Ukraine”

At the moment, the civilized world is experiencing an incredible boom in innovation. The active use of information technologies, development of new energy and materials, development of nano- and biotechnology, research progress on the creation of artificial intelligence, as well as many other highlights of the times suggest that the global community is entering a new era of development.

The transition from the fifth technological structure (waves of innovation), the era of computers and telecommunications, to the sixth — the era of nanobiotechnology, is happening before our eyes. Some of these technologies are already being felt in the developed economies, and they are continuing to grow rapidly.

We, in Ukraine, have yet to realize that you can not skip any formation stage. How quickly the future will come, depends on us and on our country.

Due to the incredible level of interpenetration of ideas and innovations around the world, we can accelerate the process. It is necessary to actively use the possibilities of science and technology in our research, learn to create universal values, boldly implement ideas that are able to be, above all, a stimulus for the development of the economy and modernization of society. Thus, the problems of successful and socially responsible businesses are much larger that could have ever been imagined before.

An indicator of success and prospects of a business that can compete anywhere in the world today is innovation, and compliance to the trends of the era. It is not just about purely technological equipment. I would call it the social “meaningfulness” of the proposed ideas and innovations. After all, the main roles of a business is not necessarily to only skillfully manage and grow, but you have to be visionary, to look 100 steps forward, make plans and implement them, based on a visionary position, and not exclusively fixate on personal success.

Do not wait until someone else makes the first step. It is important to strive to be the first, and then to break the boundaries. Only offer what no one has offered you, and you will win. I can say with confidence that in many cases Ukraine has not borrowed other people’s successful ideas. Ukraine has something to offer the world.

From my own experience I know that for successful competition in the markets of Europe, America, and Asia, Ukrainian manufacturers need to fully meet the high standards and requirements for products placed on the market. In the industry where our company works, the production of packaging and packaging materials, the requirements are steadily rising. And you do not just have to fit within the requirements, you need to keep up with and set trends.

According to research, in 2015 the global demand for flexible packaging will reach USD 210 billion. According to the forecasts, in 5 years it will approach the level USD 2488 billion. What a field of possibilities! But you will be recognized in developed markets only when what you’re doing is filled with public “meaningfulness” and you set your expectations for yourself higher than what others are expecting from you.

In an effort to compete, the company UKRPLASTIC develops and produces not only high-tech, safe and eco-friendly products, but it also is unique in terms of its properties and advantages on the world market, and that’s why our technology solutions are in great demand in the West, where the requirements for quality are very high.

We are actively promoting environmentally friendly and cautious attitudes towards resources, because naturally this is the approach to business in developed countries. Our company regularly confirms the conformity of products and the requirements of international standards, improving production and introducing energy saving technologies. The company has introduced a modern system of capturing and using harmful substances in a closed loop, as well as full recycling. We are well aware that any social initiatives and the implementation of standards, including those relating to the environment, are much more effective to begin yourself. If you need it, at a certain stage of development, they will also be needed by society, and will ultimately affect the legislative norms.

So, UKRPLASTIC actively promotes the UN social program the “Save Food Initiative”, aimed at solving the problems of the preservation of food and the reduction of food waste. According to research by international institutions, food waste is the main source of environmental pollution in the world today. Each year the word produces 4 billion tonnes of food, of which a third makes up the loss. Experts and scientists have come to a conclusion of what can significantly reduce food waste’s pressure on the environment, greatly extend the shelf life of products, as well as save enormous resources. The solution is modern “intelligent packaging” based on high-tech multi-layer polymeric materials. Contrary to popular belief that such packaging is harmful and pollutes the environment, it is a smart flexible package that is classified as environmentally safe. The importance of this indicator is reflected in the fact that international industry competitions, such as the “Worldstar Award”, have introduced a separate category for “the safest food packaging.”

Thus, eco-friendly packaging is becoming a major factor in the struggle for the conservation of resources and protection of the human environment. Every day the “Save Food” initiative gains a growing number of supporters in Ukraine. We are also ready to cooperate with all the frameworks of this program, that share our views on these issues.

Of course, we understand what a difficult situation Ukraine is facing in the environmental issue. Clearly, our country is far in this respect to the European standards. At the same time, it is noticeable that the consciousness of society is gradually beginning to change. For example, recently, the people of Kyiv put forward a petition to ban disposable plastic bags, the use of which is already banned in many countries in Europe and the world. The petition has been supported by the city council committee on environmental policy issues, and we hope that this decision will be made in the foreseeable future.

UKRPLASTIC makes modern “smart” packaging based on polymeric materials. But we are convinced that our main development and our main advantage is to contribute to the active dissemination of high-tech, the formation of ecological awareness among citizens, nature conservation, to save resources and food, to the safety of the consumer, and by and large is the country’s future development. And we intend to continuously increase this contribution.

UKRPLASTIC®

UKRPLASTIC is Eastern Europe’s largest manufacturer of flexible packaging materials for the food, cosmetic, pharmaceutical and other industries. The company was founded in 1927 and is included in the top 15 European companies of its profile. UKRPLASTIC supplies flexible packaging materials and packaging companies in the countries of Eastern and Central Europe, Africa and Asia.

try was 32 percent up in January compared to December.

And this is happening despite the requirement that state procurement of drugs be done through international organizations, disqualifying many Ukrainian producers that do not meet the requirements.

So how is it that the country's pharmaceuticals business is making more money?

The steep devaluation of the Ukrainian hryvnia means that domestic pharmaceutical companies now pay less for labor and production costs, such as electricity and water. Although they still have to use raw materials imported from abroad, some of their products are thus cheaper to make. A significant factor, however, is that their monopoly, as well as their influence over doctors and retailers, remains in place.

But this could soon change.

On April 20, Ukraine's new Cabinet of Ministers, led by Prime Minister Volodymyr Groysman, approved a resolution to cancel Ukrainian registration of medicines that have already been certified by regulatory bodies in the United States, the European Union, Switzerland, Japan, Canada and Australia. That would potentially open up the market to more foreign drugs.

However, parliament still needs to approve the law.

"Demonopolization and deregulation of the pharmaceutical market will expand access to quality medicines on the Ukrainian market, increase competition and eliminate abuses, which will, consequently, lower prices," Groysman wrote on April 20.

The pharmaceutical industry in Ukraine developed through backroom deals between officials and companies. Foreign companies have struggled to register their products – even ones that are more effective and cheaper. Registration could take 160 days, was expensive or didn't succeed.

The lack of competition allowed top Ukrainian companies to inflate prices and block competitors, according to Dmytro Sherembey, a patient activist and the head of the All-Ukrainian Network of People Living with HIV.

"Over 60 percent of the drugs available to Europeans aren't available here," Sherembey told te Kyiv Post.

Alexander Kvitashvili, who served as Ukraine's minister of health between December 2014 and April 2016, told the Kyiv Post that "monopoly isn't the right word – it's more of an oligopoly, which means that you have business deals going on between the players on the market. But in this, Ukraine is not unique."

While in office, Kvitashvili lobbied to scrap the registration of drugs already approved by foreign regulators.

"A very high percentage are produced in Ukraine for the local market and for export," Kvitashvili said. "If you don't have a competitive advantage, your industry doesn't develop... (and) by protecting the local market artificially you're protecting business interests over people."

Opening up the market is one step toward better quality and consumer prices.

But the government also badly needs to regulate the drugs that patients buy. The current market situation in the industry leads to pharmaceutical companies going to all lengths to promote their products: including bribing doctors and cutting deals with pharmacists, experts say.

"We have what is known as an out-of-the-pocket market, a free market, which is wild, and where there are no guarantees for the pharmaceutical companies," Lana Sinichkina, a partner at Arzinger law firm, told the Kyiv Post. "They sell as much as the consumer can afford to buy. In developed countries, the government has enough state funds to provide subsidies, under the condition that the price stays at a certain level. In return, pharmaceutical companies are guaranteed a certain volume of sales based on demand."

But in Ukraine there is no electronic patient registry and so statistics about use. Prescriptions are also not required to be issued on official documents or even to be written down. It's enough for a customer just to know the name of a drug to buy it.

However, as Sinichkina put it, restrictions cannot be easily imposed in a free market without industry resistance: "There has to be a health care policy first."

Kvitashvili told the Kyiv Post that lawmakers "wouldn't pass" a policy while he was health minister and that a draft had substantially weakened his proposal for an overhaul.

He wants Ukraine to duplicate his success as health minister in Georgia, which managed to change its regulations and laws, and that translated into a decrease in prices of medicines by 30 to 40 percent."

(pixabay.com)

Poor pesticides threaten environment, exports

BY JOSH KOVENSKY
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Ukraine is hailed as the “Saudi Arabia of grain" or the breadbasket of Europe, with 50 percent of all common wheat imported by the European Union coming from Ukrainian fields. In the past five years, the country’s market share has doubled.

But some of Ukraine’s agricultural exports are at risk.

Ukrainian traders of agricultural commodities told the Kyiv Post that lack of access to financing leads farmers to purchase lower quality pesticides, sometimes polluting the farmers’ products while killing off bees that fertilize crops across the country.

A beekeeper empties honey from a beehive in Kharkiv Oblast. The Czech Republic complained in January after antimicrobial agents were found in Ukrainian honey imports. (UNIAN)

Pesky financing

More farmers lack cheap financing for top-quality foreign fertilizer, forcing them into cheaper, more destructive options.

Natalia Shpigotska, an analyst at Dragon Capital, told the Kyiv Post that crop protection imports such as pesticides declined by 21 percent in 2014, or $610 million.

“All the local producers were facing a lack of U.S. dollars and a lack of opportunity to attract credit from suppliers of crop protection,” Shpigotska said.

It is difficult to know how much farmers save by opting for cheaper pesticides because many of them resort to smuggling.

Buzz around town

The problem is felt most acutely in the beekeeping industry. Ukraine is Europe’s largest honey producer, with 75,000 tons of honey produced annually – the highest per capita on the planet.

According to Serhiy Cherchenko, director of Be Buzzz, a Ukraine honey trader, the country’s industry faces a crisis because pesticides are killing off bees. “In 90 percent of cases, the deaths of bees are caused by the uncontrolled application of different pesticides,” Cherchenko told the Kyiv Post.

When the bees fertilize plants, they are covered by the pesticide, used to kill pests that would otherwise destroy the crop, and then bring it back to the beehive. If the pesticide is of poor quality or was improperly applied, one infected bee can kill many bees in the beehive.

“It’s the low-quality pesticides that present the most danger not only to bees, but to any living being,” Cherchenko said.

The problem has far-reaching consequences. Cherchenko called it a “global problem," since the lack of bees means that other crops are not fertilized properly.

Contamination?

According to Paul Peters, deputy chief financial officer at Ukrainian agricultural trade firm Agri Finance, cheaper options damage export.

In January, the Czech Republic raised an alarm after authorities found “antimicrobial agents” in a batch of imported Ukrainian honey. “The most dangerous pesticides are those that are undeclared,” Cherchenko said.

The Czech incident led to the loss of Ukrainian honey exporters' ability to sell to the European Union unti it can pass tests.

The same problems could happen for grain. "If you have something not very good in your grain, you won’t sell it,” Peters said.

New agriculture minister to focus on small farms

BY ISOBEL KOSHIW and ILYA TIMTCHENKO
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Taras Kutoviy, Ukraine's new agriculture minister, says he will be a champion for small farmers in a country where big agroholdings dominate. By contrast, predecessor Oleksiy Pavlenko devoted much of his time to promoting larger agribusinesses.

"Saying every year: 'We are the champions, we have 50-60 million tons of grain, we exported 35 million' – yes, this is very good, but it's not the only way," Kutoviy told the Kyiv Post in a May 14 interview.

Instead, he points to countries like Denmark, in which 2.6 million hectares of farmland produces €24 billion worth of crops, compared to the €12.5 billion produced by Ukraine's 26 million hectares. "They have 10 times less land, but they make twice the money," Kutoviy said. "So this is the way the agricultural sector should go."

And he is confident that his "3+5 strategy," as he calls it, will move Ukraine in that direction. The "3" refers to three strategic areas: allowing sale of land, increasing state support to help small enterprises and rural development. The "5" refers to development priorities: new markets, niche produce such as organics, state enterprises, irrigation and food quality.

State funding for SMEs

Kutoviy wants to increase state grants for small farmers for equipment and other needs. Today, the ministry has Hr 15.6 million earmarked for this. He wants it hiked to Hr 200 million this year and "substantially bigger" in 2017, Kutoviy says.

Taras Kutoviy, who took over as agriculture minister on April 14, says that helping small farms will be his priority. (Volodymyr Petrov)

Ultimately, the budget increases depend on the Finance Ministry.

In the past, most state support benefitted large agroholdings, Kutoviy says.

Farmers must decide

One way to do this is to change the way the money is distributed and let farmers decide how to spend it.

"I want farmers' associations to decide how they will distribute this money," Kutoviy said. "It could be (purchase of) a cold warehouse for vegetables, grain wagons – anything that they can decide for themselves," Kutoviy said.

Land sale moratorium

An even more important issue for farmers might be the cancellation of the moratorium on the sale of land. It has been one of the sources of controversy for the ministry since the ban was put in place in 2004.

The International Monetary Fund and other financial institutions are keen for the moratorium to be lifted. They say this will allow farmers to use their land as collateral to access bank loans. In turn, this will create a major new asset class for Ukraine.

But others argue that, without an effective judicial system, lifting the ban will only have negative effects.

Daniel Sweere, an American farmer who has been in Ukraine since the 1990s, said that without a proper court system, the banks still wouldn't necessarily be able to recover assets in the event of default. Moreover, Ukraine's lack of →61

Legal Developments in the Pharmaceutical Sector: Moving Forward

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The pharmaceutical industry remains one of the most important sectors of the Ukrainian economy. Recently, Ukraine took several important steps to improve regulation of the pharmaceutical market, recognizing its investment attractiveness as well as its social importance. Below, we would like to outline the most significant changes that occurred during last six months, along with ones that are being considered at the moment.

Simplified registration of certain medicinal products

On April 20, 2016 the Cabinet of Ministers of Ukraine adopted Resolution No. 312 "On Amending the Procedure for the State Registration (Reregistration) of Medicinal Products." This resolution simplifies the procedure for the state registration of all medicinal products that have been registered by a competent authority in the United States, Switzerland, Japan, Australia, Canada or the European Union.

In particular, the resolution limits the maximum period for an expert assessment of registration materials for medicinal products already marketed in these jurisdictions to 20 business days. The resolution also shortens the period for the Ministry of Health to authorize the registration of such medicinal products from one month to ten business days.

We expect that such amendments will significantly simplify the access of international companies and their new products to the Ukrainian market and, thus, establish market conditions for robust competition.

Harmonization of Ukrainian legislation on medicinal products with EU standards

In February 2016 two draft laws, in particular, draft law No. 2162 "On Medicinal Products" and draft law No. 2162-1 "On Medicinal Products," were submitted to the Ukrainian parliament. Both drafts aim to implement the provisions of EU Directive 2001/83/EC "On the Community Code Relating to Medicinal Products for Human Use" and provide for the mandatory application of such standards as good manufacturing practice, good distribution practice, and good clinical practice. Both drafts also quite strictly regulate the advertising of medicinal products. If either of the drafts is adopted, companies may be required to review their business processes and adapt to new legal requirements.

Results of medical trials may become publicly available

Another significant proposal regarding medical trials was introduced to the Ukrainian parliament in draft law No. 4074, dated 16 February 2016. Under this draft, all results of medical trials (apart from confidential information) will be made publicly available. This proposal should restrict the access of medicinal products with low effectiveness and safety to the Ukrainian market. It should also counteract corruption during the registration of medicinal products.

Ratification of amendments to TRIPS Agreement

On Feb. 3, 2016 Ukraine ratified a protocol amending the TRIPS Agreement, dated Dec. 6, 2005 (the "Protocol"). The Protocol authorizes WTO member states to export medicinal products produced on the terms of compulsory licensing to countries that cannot manufacture the necessary medicinal products themselves. Currently, the TRIPS Agreement permits the application of compulsory licensing provisions only to meet demand on the national market.

The compulsory licensing mechanism authorizes member states to grant licenses to use intellectual property protected by a patent without the prior consent of the patent holder. Resolution No. 877, adopted by the Cabinet of Ministers of Ukraine on 4 December 2013, sets out the procedure for compulsory licensing in Ukraine. The Protocol sets out certain restrictions aimed at preventing possible abuses and protecting the rights of patent holders. In particular, the Protocol requires member states to notify the Council for TRIPS of its intention to export compulsorily licensed pharmaceuticals.

The Protocol will come into effect after all WTO members ratify it. According to information published on the official website of the WTO as of May 2, 2016, 74 out of 108 states have already ratified the Protocol.

The Protocol may potentially be of use to Ukrainian generic companies who can manufacture compulsorily licensed products. It may also affect international companies, whose medicinal products may be compulsorily licensed.

Clarifications of the Antimonopoly Committee of Ukraine regarding pharmaceutical market

On Dec. 7, 2015 the Antimonopoly Committee of Ukraine (the "AMC") clarified its own Recommendations, which were issued to participants of the pharmaceutical market on March 5, 2015 (the "Recommendations"). The Recommendations are based on the results of retail market research and relate to the impact of marketing services on the ultimate prices of medicinal products.

In particular, the Recommendations state that the pricing of marketing services should be comparable to actually incurred expenses. In the view of the AMC, this means that such costs should be economically reasonable. At the same time, it does not preclude companies from gaining profit from the provision of such services. Besides, the AMC clarified that pharmaceutical companies may support pharmacies by providing financial incentives, depending on the amount of sold medicines. However, such incentives must not affect the competition on the pharmaceutical market (e.g., obstruct market access to other participants).

The Recommendations give certain guidance for determining the pricing policy and marketing strategy for medicinal products. Considering the significant importance of marketing in the industry, business should pay proper attention to compliance with the Recommendations.

* * *

The recent steps taken by the Ukrainian authorities show there is a strong intention to improve the regulation of the Ukrainian pharmaceutical market and bring it into line with EU standards. We are looking forward to the further improvement of the regulation of the pharmaceutical market, and expect that all of the above-mentioned commitments will significantly increase transparency in the sector.

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AUTOMOTIVE

Domestic manufactured ZAZ Lanos (front) is cheaper than imports. But despite the economic crisis and a drop in purchasing power, the manufacturer accounted for just 6.1 percent of 2015 sales. (Kostyantyn Chernichkin)

Domestic car makers losing out to imports, used cars

BY OLENA SAVCHUK
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When it comes to automobiles, there is no understanding between the Ukrainian consumers, domestic carmakers and the government.

Like many nations, Ukraine tries to protect its national producers with import duties and value added taxes, which boost government revenues. Altogether, the taxes add 47 percent to a new car's value and 170 percent to a used one, making automobiles more expensive than in neighboring European countries.

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But drivers want reliable and preferably cheap cars, wherever they come from. Sales figures show motorists overwhelmingly prefer foreign-made cars over domestic-made ones. This leaves the few existing Ukrainian car producers on the brink of survival, with their share of the domestic market dropping from 47 percent in 2008 to just 10 percent in 2015.

Car manufacturing in Ukraine

Number of units

2006	**289,700**
2007	**403,200**
2008	**425,700**
2009	**69,300**
2010	**83,300**
2011	**104,600**
2012	**76,300**
2013	**50,400**
2014	**28,700**
2015	**8,300**

The number of vehicles made in Ukraine has dropped significantly in the last decade.
Source: Ukrautoprom

Production stalled

The crisis forced half of Ukraine's manufacturers out of business. The Ukrainian car industry worked at 2 percent of capacity in 2015, producing only 8,300 vehicles, down from 425,700 automobiles in 2008.

Ukraine has only one full cycle producer of cars ZAZ, based in Zaporizhya, and another manufacturer of Czech Republic-based Skoda cars which imports most of its parts.

Apart from that the country manufactures buses and trucks, which are performing a bit better than personal vehicles. Bus production factories are used at 10 percent of capacity, according to Yukhym Khazan, vice president of Ukrautoprom, the Ukrainian motor vehicle manufacturers association.

Khazan blames the industry's decline on the lack of government support.

Ukraine's automobile industry lost its competitiveness after Ukraine joined the World Trade Organization and import duty on automobiles fell from 25 to 10 percent. The market share dropped further after parliament canceled a car recycling fee in 2014.

The government also did not protect the domestic market against cheaper subsidized Russian vehicles. Until 2016, they were imported to Ukraine without any import duty under a trade agreement.

Used cars on high demand

At the same time, new car sales in Ukraine are shrinking as buyers opted for used ones, a byproduct of the financial crisis and expensive loans. New car sales accounted for only for 9 percent of personal vehicle sales in 2015.

The luxury segment remained stable, nonetheless, with the low-cost segment suffering the most.

Sales of used cars filled the void. In 2015, there were 500,000 such sales, including 10 percent imported.

Car dealers expect growth in used cars sales after VAT changes that reduce taxes to the amount paid on resale profit, rather than on the entire value of the vehicle.

"It is a good start for official dealers to take part in the used car industry, which helps the government, because the taxes get paid and helps the customer because they can go to an official dealer whom they can trust better," says Petro Rondiak, the general director of Winner Imports Ukraine, the official dealer of Ford, Volvo, Jaguar, Land Rover and Porsche in Ukraine.

Used car imports have also seen big changes this year after Kyiv introduced European emission standards in 2016, prompting customers and dealers to import newer cars.

A potential customer looks at a car in Kyiv on March 30. (Volodymyr Petrov)

Workers repair a road in central Kyiv on May 5. Ukravtodor's work at road maintenance is hampered by low funding and widespread corruption. (Kostyantyn Chernichkin)

Ukrainian roadways in poor shape, need $40 billion in investment

BY JOSH KOVENSKY
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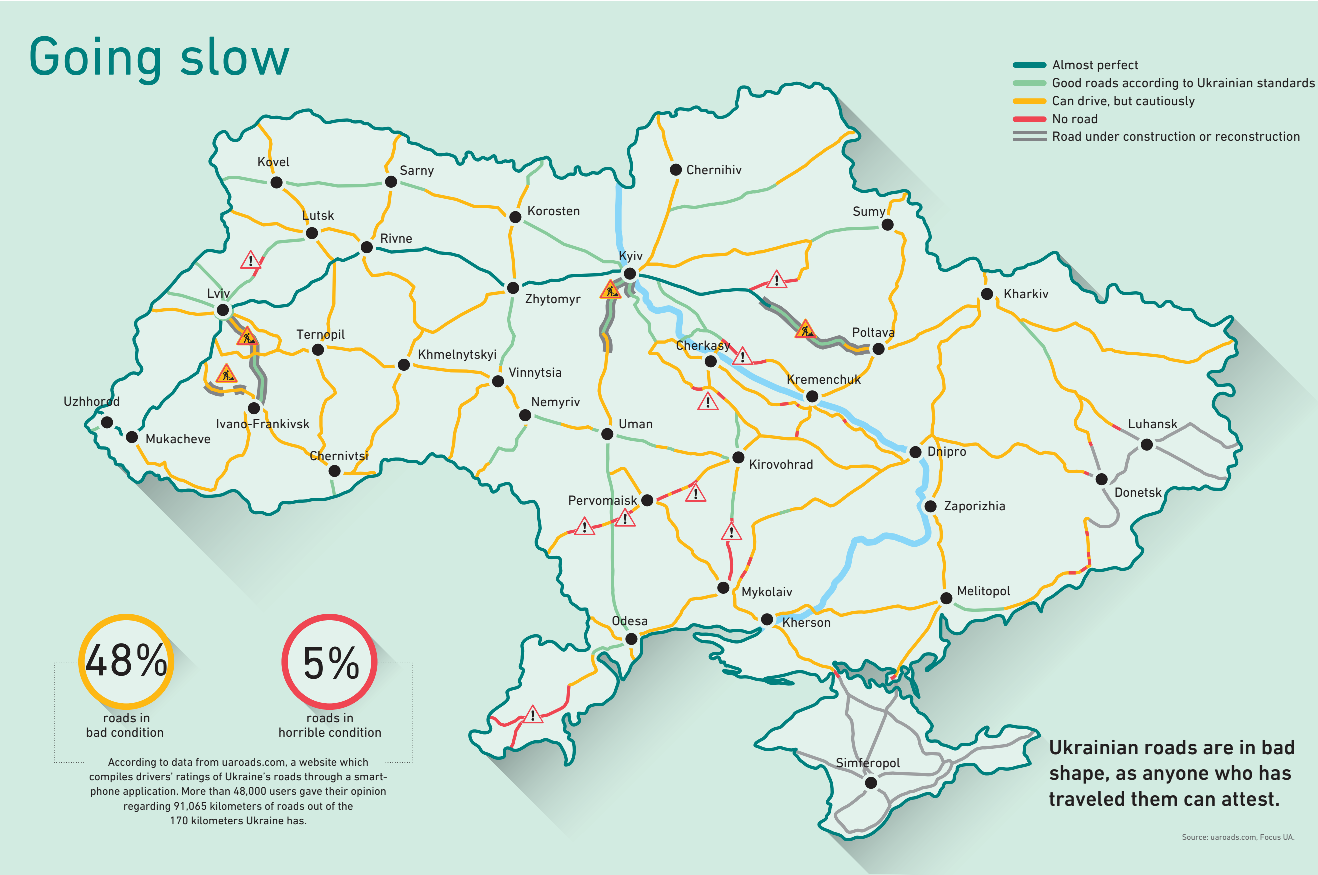
When people complain that Ukraine's roads are all bad, they are almost right – just 3 percent of the nation's roads are in a satisfactory condition.

Ukravtodor, the country's state-owned road repair company, is ineffective and corrupt. Its sole achievement has been to keep the main routes between major cities in passable shape.

Despite hundreds of millions of dollars in grants from the International Monetary Fund and the World Bank being allocated to the country's roads, they continue to deteriorate. This makes it hard for commerce, expensive for drviers and deters social cohesion in general.

A trip from Kyiv to Lviv, roughly 540 kilometers, takes around eight hours. A trip of about the same distance in the United States, say from Chicago to Cleveland, would take a little over five hours.

Since early 2015, the Infrastructure Ministry has been lobbying for overhaul-



ing Ukravtodor. Under the ministry's plans, the company would be only responsible for managing the country's main highways, while independent local road departments would maintain the regional roads. Local governments are responsible for the roads within the cities.

But such changes have not yet found the support in parliament.

Ukravtodor didn't reply to requests for comment on this story.

'Marshall Plan' for roads

When Roman Khmil, an information-technology executive, joined the Infrastructure Ministry as the deputy of then-Minister Andriy Pivovarskiy in March 2015, fixing the roads was his top priority.

He trumpeted a Hr 1 trillion ($40 billion) "Marshall Plan" for Ukraine's roads that would decentralize Ukravtodor, devote resources to maintaining the country's main freight transport roadways, and impose weight restrictions on trucks to stop them from degrading the roads.

But Khmil resigned in April, with almost none of the goals accomplished.

"We drafted the legislation that was required," Khmil said, summing up his achievements.

But parliament passed none of the laws that Khmil and the infrastructure ministry submitted, including a proposed slush fund for road maintenance and a bill to decentralize Ukravtodor.

Apart from parliament's failure to pass legislation, personnel issues hobbled Khmil's attempts.

Khmil and Pivovarskiy spent months attempting to oust former Ukravtodor chief Serhiy Pidhainy, who had led the organization since June 2014. The ministry team finally managed to install the current head, Andriy Batischev, in October 2015.

But in December Batischev was attacked and beaten up in his own office - allegedly by employees of a Mykolayiv contractor whose services he had turned down.

Tender problems

However, even with proper management, there is little money available to properly fund road construction.

Much of Ukravtodor's budget comes in the form of grants from foreign lenders like the European Bank for Regional Development and the World Bank, who pay for maintenance of the largest highways.

But Ukravtodor has been consistently accused of corruption in tenders, raising questions of how effectively the donor money is being used.

The problem appears to be rooted in Ukrdorinvest, the division of the organization that handles foreign funding. One engineer who works on Ukravtodor contracts told Kyiv Post that the investment division's office "looks like Goldman Sachs." He would not give his name as he wasn't authorized to speak to the press.

Kyiv Post requested comments from Ukravtodor on its investment division's work. The company didn't respond.

Oleg Ostroverkhiy, ex-chief engineer for the Kyiv Road Administration and a consultant to the Ministry of Infrastructure, said that Ukrdorinvest began to siphon off increasingly more money around 2010, when ex-President Viktor Yanukovych came to power.

"Then everything began to get worse and worse and worse – there was more pressure on the bosses," Ostroverkhiy said.

One example is Ukravtodor's deal with Spanish road maintenance firm Elsamex. The company won a tender in January 2014 to maintain the Kyiv-Chop highway for seven years on an EBRD-funded contract, having offered the lowest bid – $50 million, beating Turkish firm Onur, which bid $61 million.

But by August 2014, the Elsamex deal was off. Ukravtodor cancelled the firm's contract, saying that the company had failed to maintain the road, and hired Onur instead.

"What happens now is that this contractor goes and tells other foreign contractors, 'don't go there,'" Ostroverkhiy said. "They can throw you out, trick you, etc."

Deadly consequences

The low standards in Ukrainian road building and maintenance can have fatal consequences, as seen on the Kyiv-Chop M06 highway.

Renovated in 2009, the highway was remade without a key feature: overpasses for drivers that need to either make a left turn or a U-turn. To make such a turn on the highway, which passes through Lviv to the border with Hungary, drivers instead have to turn into oncoming traffic.

"The death rate almost tripled," said Khmil. "They designed holes in the barriers so cars could do U-turns, and there are head-on collisions."

Ostroverkhiy also said the traffic mix of high-speed modern cars and slower Soviet models also make the roads more dangerous.

"Speed is the main cause of death on Ukrainian roads," Ostroverkhiy said.

Truck lobby trounced?

However, Ukravtodor in May won a crucial battle against the country's influential truck lobby.

Ukraine's roads have been worn down by overloaded trucks that place more weight on the roads than they were originally designed for.

The problem has been exacerbated by Russia's annexation of Crimea, which forced trucks that would have otherwise gone to the port of Sevastopol to deliver freight to the port of Odesa, degrading the roads in Odesa Oblast. Additionally, a law passed immediately after the EuroMaidan Revolution that lifted weight requirements on trucks in an effort to stimulate commerce is still in place.

"It's a fight with business," Khmil said. "They got used to saving money by carrying goods two or three times overweight. While they save $1,000, they cause 10 times more damage to the roads."

The dispute peaked on May 14, when truckers blocked the Odesa-Kyiv highway after the Ministry of Infrastructure installed a new weigh station to try to stop overloaded trucks from traveling.

All the truckers "knew their vehicles were overweight," Khmil said.

But thanks to the intervention of Prime Minister Volodymyr Groysman, who said in a statement that "overweight vehicles must not destroy Ukrainian roads," the protest failed. According to Khmil, trucks along the Kyiv-Odesa highway now appear to be driving within the weight restrictions.

"The truck owners realized that the government was serious," Khmil said.

$40 billion needed

Despite that victory, Khmil still doubts that the cash-strapped government can find the funds needed to bring Ukraine's roads up to scratch.

As of today, Khmil said, it would cost more than Hr 1 trillion ($40 billion) over the next decade to repair Ukraine's road network. He adds that on top of that, an additional Hr 50 billion ($2 billion) is required annually just to maintain the roads in their current condition.

"Those who are scared by this can pack their suitcases," Khmil wrote in a Facebook post, "and go to countries whose citizens at some point 'got off the couch' and made a meaningful effort to create the quality of living and the development of society that we see there."

International lenders like the World Bank and the EBRD continue to lend to Ukravtodor, though it appears to have had little noticeable effect on the country's roads.

A visitor enters the Kyivska Rus bank in July 2015. The National Bank has liquidated more than 66 banks in its cleanup of Ukraine's banking sector. (Anastasia Vlasova)

Deadbeat debtors sicken Ukraine's banking system

BY ILYA TIMTCHENKO
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While the general health of Ukraine's banking system is improving, one ailment is still getting worse - non-performing loans and the inability of banks to collect on them.

Non-performing loans have roughly doubled in the last two years, from 12.9 percent in 2013 to 24.3 percent in 2015 of total lending, according to data from the World Bank. Many of those bad loans are more bills coming due from the era of President Viktor Yanukovch. To reimburse depositors who lost their savings in banks, partly because of loans gone bad

or fraud, taxpayers have paid out Hr 70 billion ($2.8 billion) from a deposit insurance fund.

Before Yanukovych was overthrown in 2014 by the EuroMaidan Revolution, not even the National Bank of Ukraine knew who owned most of the nation's 180 banks. Consequently, regulation was non-existent. The parasitic "pocket owners" hid behind shell companies, using banks to either launder money or lend to insiders (such as themselves) with no hope of repayment.

While Ukraine's central bank has gotten rid of about a third of the banks from that era – leaving 120 financial institutions left – that money may be gone for good. There is simply no enforcement of major financial crimes happening among police, prosecutors or the courts.

The government, citing bank secrecy laws, won't even identify the deadbeats that costs taxpayers so much.

Global crisis

Mauro Machio, the CEO of Italian bank Unicredit in Ukraine, says that “the level of non-performing loans as a percentage of the total volume of loans in the banking industry is much bigger” than in other European countries.

The deadbeats, coupled with a lack of strong creditor rights, have deterred banks from lending despite record-high liquidity. Many banks have simply parked their assets with the central bank and earned the going interest rate at no risk.

Against Ukraine’s 24.3 percent of loans hitting non-performing statues in 2015, Poland had 4.7 percent, Sweden 1.1 percent and Moldova 14.4 percent.

Creditor’s rights

In Ukraine “it’s extremely difficult for a creditor to have their rights recognized and protected,” Machio said. “Even when you’re right... a lot of the times you face a system that’s acting, behaving in a way that you wouldn’t expect in any other market.”

Unicredit announced it was leaving the Ukrainian market in February. It plans to sell its unprofitable Ukrainian Ukrsotsbank chain to Russia’s Alfa-Bank, which is owned by Russian billionaire Mikhail Fridman.

Alfa-Bank advisor and former Economy Minister Roman Shpek told the Kyiv Post that Ukraine was one of the easiest countries in the world in which to obtain credit, but that it was among the most difficult for creditors to collect.

“These conditions affect the daily work of the banks,” Shpek said. “For those that try not to repay the loans, we take them to court, but it’s a long process – four to five years.”

Unfair cases

Unicredit, Italy’s largest bank by assets and the biggest foreign bank active in Eastern Europe, has indeed been involved in a years-long case in Ukraine to defend its ownership of an asset it acquired as collateral on a non-performing loan.

“The customer wasn’t able to pay back the loan, so they gave over ownership of the asset that was the collateral,” Machio said. “Since then, there have been hundreds of court hearings on this case.”

In another case, a Ukrainian notary registered rights of a non-existent property to a Unicredit customer, who subsequently used those rights as collateral on a loan from the bank.

“The level of not completely transparent and... bad behaviors by the actors in this system is enormous,” Machio said. The customer “probably knew the notary and the notary made the transaction in the full knowledge that the transaction was not legal.”

Business in Ukraine is often based more on personal relationships and bribery, Machio said, leaving those who follow the law at a disadvantage.

“As an international group, there are approaches that we cannot accept, that we don’t even want to consider putting in place, because they’re against our values, international rules and our reputation,” he said.

More suspicious

But another reason for non-performing loans is not fraud, but economic crisis.

Those who took out hard currency loans before the 2013 crisis saw the cost of repayment skyrocket as the hryvnia lost two-thirds of its value following the EuroMaidan Revolution.

“Some customers in this situation, instead of finding a way to even reach an agreement with the bank on how to resolve the issue, run away... with the money in their pocket,” Machio said.

The consequences of failing to repaying a loan "are not extremely serious” to the borrower, Machio said, but hurt prospective borrowers as banks curtail credit and impose tougher standards for loans.

Government’s fault

Shpek, who is also the chairman of Ukraine’s Independent Bankers Association, says that part of the problem is that the government has led by bad example. For instance, the State Fiscal Service still fails to return value-added tax refunds to banks promptly.

The government is not transparent in identifying problem borrowers.

Shpek said that it makes sense to establish a database of borrowers for banks to consult in order to identify individuals who repeatedly fail to repay loans.

While Ukrainian taxpayers deserve to know who doesn't repay loans – since it’s their money that effectively goes to cover depositers' losses – bank secrecy laws forbid the disclosure of such information by the government.

“But it would be possible to release this information from open sources,” Shpek added.

A customer purchases tea at Kyiv's Tea & Honey shop on May 27. Tatiana Popova, the owner of the small shop, wants to expand her enterprise, but says she can't afford to take out loans from banks because of the high interest rates. (Serhii Popov)

Smaller businesses in Ukraine struggle amid lack of credit

BY OLENA SAVCHUK
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As an oligarch-run, post-Soviet state, Ukraine's legal and banking systems remain devoted to serving big businesses, even though smaller ones are the lifeblood of prosperous economies and support most of the people.

Now, in the wake of the EuroMaidan Revolution that drove President Viktor Yanukovych from power in 2014, the government says it will do an about-face and make smaller businesses its priority.

But they will find the sector is starving for credit.

According to the data from State Statistics Office, Ukraine's small businesses employe 73 percent of the population and acocnt for 61 percent of the gross domestic product. Yet, they remain vulnerable to bureacracy, tax collectors and abuses by monopolies.

"The small and medium enterprises are a layer of people who are fighting for their rights," Deputy Economy Minister Yulia Klymenko told the Kyiv Post. "By supporting them, we're supporting our citizens."

To do that, Ukraine has simplified taxes and the process of registering companies, while halving the number of required licenses and permits. But credit remains a problem.

Expensive loans

Tatiana Popova's small business is four months old. She sells tea and honey made at her parents' farm. When opening her shop, she relied only on funds borrowed from relatives.

But now she is looking for an investor to develop the business, as her single shop is not bringing in enough "money for a car or an apartment."

"To familiarize people in the neighborhood with me, I need Hr 5,000 ($200) for advertising," Popova told the Kyiv Post. "I don't have these funds at the moment, because they're all spent on rent, workers' salaries and the purchase of new goods."

Loans in Ukraine are expensive and more difficult to get. Interest rates are 24-25 percent while in the European Union they are 3.5-5.5 percent.

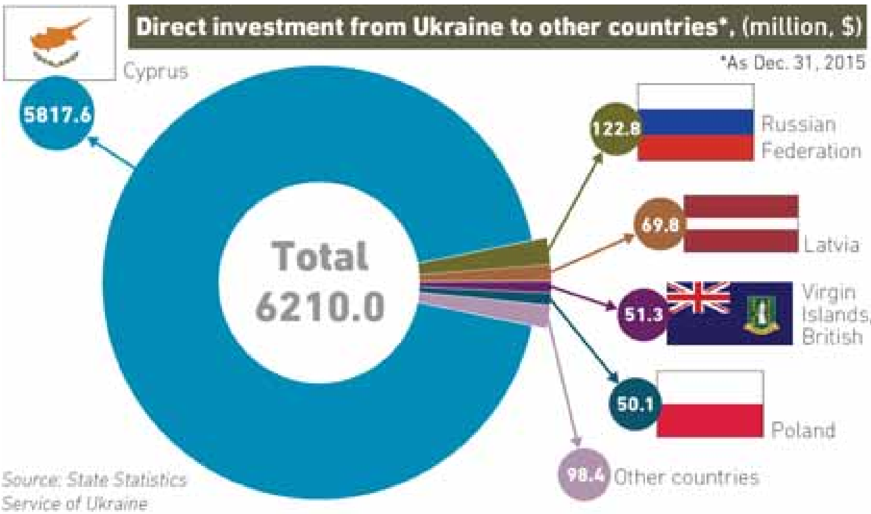
"The banks keep giving credits, but in smaller volumes than before," Ruslan Sobol, the head of Kyiv Small and Medium Business Association, said. Creditors are also more cautious, as the national currency ane economy are still unstable.

High inflation and the wealth of deadbeat borrowers are also increasing the cost of credit, according to Roman Shpek, the head of the Independent Association of Banks of Ukraine.

Ukraine suffered a 43 percent inflation rate last year, forcing the central bank to hike rates to 33 percent. Although they have since been almost halved, to 18 percent, the credit is still expensive by European standards.

So when will loans become cheaper? According to Shpek, only when foreign investment returns - and that may not be soon.

While the government achieved macroeconomic stability, investors still distrust Ukraine's financial system.



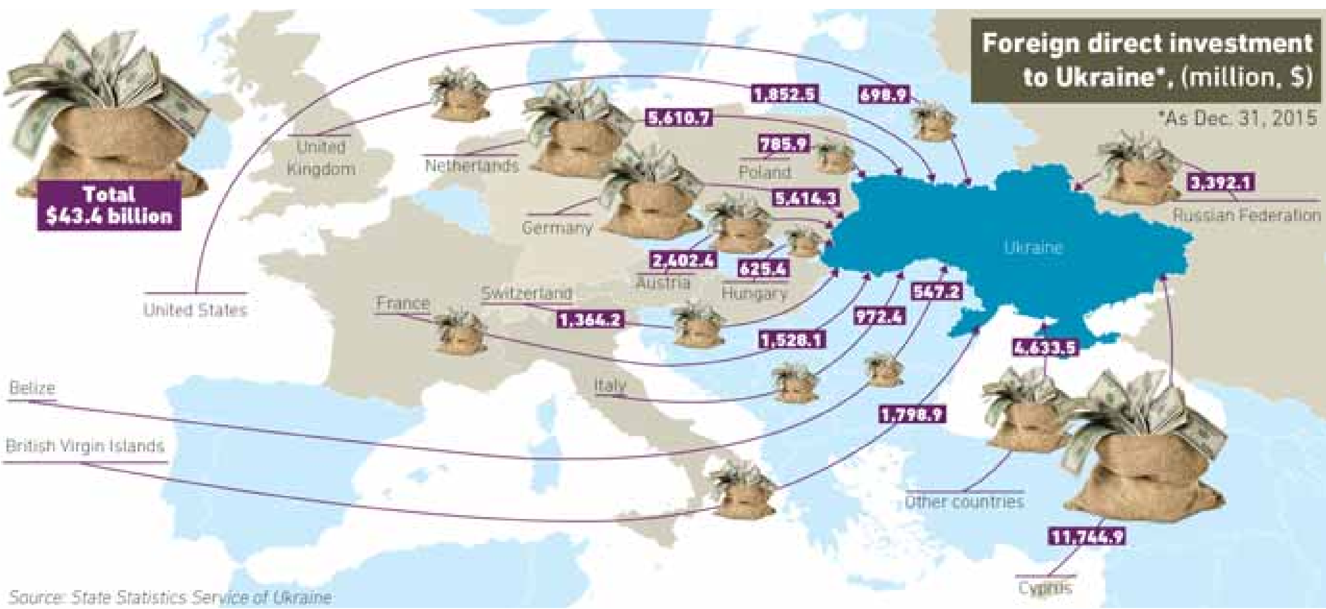
Ukraine's favorite destination for outgoing foreign direct investment is Cyprus, a global and secretive offshore tax haven. Only two European Union countries are on the top five list – Latvia and Poland – which make up only 1.9 percent of the country's foreign direct investment.

International support

While the state is too poor to help smaller businesses, at least 30 programs funded through the European Bank for Reconstruction and Development, the United Nations Development Program, the European Union, Canada and the United States are providing credits, grants and technical help.

But most smaller businesses are left to the mercy of private banks – or their relatives and friends – to find the credit they need.

Kyiv Post staff writer Josh Kovensky contributed this story.



Most of the investment that Ukraine receives from abroad comes from offshore tax havens such as Cyprus, British Virgin Islands and Belize. Russia is Ukraine's fourth largest foreign direct investor.

Shedding light on the mainstay tools for protecting investors’ business harbor

Artem Stoyanov
Senior partner, LCF

You represent the interests of the creditors of Azovmash — the largest machine building enterprise of the country. How is it going with the issue of the enterprise returning its debts?

LCF has been a legal advisor for the largest Ukrainian banks in high-profile disputes with unscrupulous borrowers for a long time already.

We actually represent the interests of PJSC “Alfa-Bank” (a creditor bank) in a dispute with a group of companies within the Azovmash holding company with regard to the return of credit debts amounting to more than USD 70 million.

The current practice in the bank-borrower relationship reflects the low degree of financial culture of the debtors, who are quick to apply various unscrupulous schemes to avoid repaying loans to the banks. This can be seen in the case against the Azovmash holding company, which has tried, and is still trying to use, any possible methods, including those of doubtful legitimacy, to delay the adoption and execution of court decisions in favor of our client.

Despite this, the courts have already handed down rulings for the collection of more than USD 50 million in debts on loans to Azovmash. We have managed to defend the legitimacy of those decisions in courts of higher jurisdiction, and they have already come into legal force. The legitimacy of guarantees that have been granted has also been confirmed.

However, as of today, the economic court of Kyiv has already brought two cases of bankruptcy on indebted companies. As a result, this complicated the enforcement of the decisions because of the introduction of a moratorium on the satisfaction of creditors' claims.

Due to the fact that current initiators of these bankruptcy cases are companies that are part of Azovmash holding, the debtors are not hiding their true intentions.

However, we don’t think bankruptcy means that creditors lose all of their chances to collect debts. We have advocated for the interests of creditor banks in bankruptcy procedures on multiple occasions. In addition, we can clearly state that with a professional approach to the issue, and using all the procedural rights of the creditor, it is possible either to recover the debt recovery or reach an amicable agreement on beneficial terms.

Are there any precedents when in a similar situation a bank has succeeded recovering such credit debts?

One good example is the case of the bankruptcy of an enterprise that owned one of the biggest infrastructure objects in the city of Vinnytsia city. The bankruptcy procedure took quite a long time and went through lots of stages, including several rounds of court appeals, involving the Supreme Court of Ukraine. As a result, the debtor’s assets were sold at auction following the bankruptcy procedure, and the bank recovered the credit debt.

Considering your experience, what issues would you recommend investors to pay particular attention to before becoming a creditor of a Ukrainian enterprise?

Talking about our advice to investors and potential creditors to the Ukrainian manufacturing enterprises, one of the first and most important things to do is to take into consideration the current loopholes in Ukrainian legislation, which can result in fraud actions and that can include the involvement of law enforcement officers. This is not a regular occurrence, but this risk should be considered by investors.

A second important recommendation is to estimate enterprise’s capabilities to service the loan and repay it on time. The main component of such an assessment should be an integrated financial and legal audit of the credit facility. In addition, one should take into account the current political situation. Thus, the export market of many industrial enterprises has been focused on Russia, and not all of them can successfully reorient away from it. Hence, the financial results of previous years may not be a good enough indicator for decision-making. Moreover, the assets of many industrial enterprises are in occupied territories, and this should also be taken into account when making decisions.

A lot of attention should be paid to executing credit transactions and the registration of credit agreements. Thus, in many litigations the smallest nuances in contracts may either provide a victory over an opponent, or lead to contracts being declared null and void, or terminated with the loss of funds. In the context of multi-million dollar loans, borrowers (or rather their lawyers) will not forgive even the tiniest mistakes. In addition, the legal departments of banks should monitor all current trends in judicial practice and take them into account when drafting contracts, proactively eliminating all potential risks.

The corporate structure of the borrower has to be considered as well. Very often groups of Ukrainian companies are managed and owned by a holding company registered in a foreign jurisdiction. In such a case, it would be very effective to take the corporate rights of the holding as collateral, and in the case of a dispute, the investors would be able to protect their interests in courts of other jurisdictions. In such a way, these agreements could be made subject to, say, English law, and could also include an arbitration clause on any litigation having to be heard in authoritative international arbitration courts.

Large-scale privatization is planned in Ukraine for 2016. Should an investor buy assets that have debts?

As for the investor's participation in the privatization of state assets, or investing in facilities that have large debts, there is no single, detailed piece of advice that can be given here. The analysis of the feasibility of an investment has to be carried out separately in each specific situation.

There are a lot of investment options and tools in a situation where an enterprise is not bankrupt. If bankruptcy proceedings have already been instituted, investment is also possible while sanitation procedures are going on, or by signing a debt settlement agreement.

What should a creditor do if he is already facing the problem of the non-repayment of debts?

Summarizing all the points above, I would advise creditors who are already facing the untimely repayment of debts by a borrower or counterparty to use all possible legal mechanisms for recovering payments, and take a more proactive position. It is also necessary to take simultaneous measures to reduce the risks of unscrupulous behavior by the debtor, and the removal of assets. And it is always much easier to negotiate with a debtor on the terms of repayment if you have court orders for recovery and seizure of his assets. This is confirmed by our own experience.

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A customs officer checks a car with smuggled cigarettes stopped on Ukraine's western Zakarpattya border on May 10. (zak.sfs.gov.ua)

How to rid rot from customs service

BY YULIANA ROMANYSHYN
ROMANYSHYN@GMAIL.COM

LVIV, Ukraine – Will there finally be a crackdown on Ukraine's corrupt customs service?

Ukrainian Prime Minister Volodymyr Groysman, appointed on April 14, is promising one. He has declared it a priority to end abuses and overhaul the State Customs Service, which is part of the State Fiscal Service.

Smuggling, bribes paid to cut import duties, opaque pricing of customs clearance – all these have long plagued the country's customs service, draining billions of dollars from Ukraine's official economy into the shadows.

"We currently have enormous challenges with customs, which on the one hand cater for the needs of the shadow economy, and on the other hand hinder the development of our domestic producers," Groysman said in a video message posted recently on his Facebook page.

To carry out the cleanup, Groysman has introduced 20 mobile groups of border guards, dubbed the Black Hundred, whose members come from the National Anti-Corruption Bureau, the National Police and the State Fiscal Service. These roving units are tasked with uncovering gray and black smuggling schemes.

Lviv and Uzhhorod are cities where Groysman wants to reform customs first.

Control of Lviv customs

Lviv Oblast in western Ukraine has a long border with Poland, which is part of the European Union, and is thus a big window for smuggling.

Visiting Lviv Customs on May 7, Groysman said smuggling had to be halted in three months, and the customs clearance of goods made faster.

"If there's the will for that, I'll give my support," the prime minister told Lviv customs employees, writing later on his Twitter account.

But if not, heads will roll, he warned.

Lviv Fiscal Service Department has already introduced joint border controls with Polish authorities at three of six vehicle checkpoints, Lviv Customs head Levko Prokipchuk said. Working jointly reduces the opportunities for corruption and smuggling, he said.

“This cooperation is working well, as it speeds up border crossings and helps us focus on risks," Prokipchuk said.

Smugglers from Ukraine frequently transport cigarettes, clothing and electronic devices into Poland.

Better equipment at border posts would help stop them. For instance, X-ray scanners could detect hidden consignments of smuggled goods in an instant. But Lviv Customs has no working scanners on its borders with Poland.

Along with smuggling, time-consuming customs procedures are the bane of business.

According to the Doing Business 2016 ranking for Ukraine, it takes 122 hours (around 15 days) to prepare documents and export goods through the border, while importing takes 220 hours (27 working days).

Staff levels are also a problem: Ukraine's checkpoints on the Polish border have 550 customs officers – 20 percent less than on the Polish side

Every year, passenger and transport traffic increases by 10 percent – it was 17 million people in 2015 – but “the number of employees is falling,” Prokipchuk said. “And then they ask why we have lines at the checkpoints?”

Smugglers in Zakarpattia

Hennadiy Moskal, the governor of Zakarpattia Oblast, has already found cracking down on smuggling in his region tough going. So tough, in fact, that at the beginning of May he was ready to quit.

Moskal took over as governor in June 2015, after spending 10 months as governor of war-torn Luhansk Oblast in eastern Ukraine. But it was much easier to control Luhansk Oblast, on the border with Russia, than tackle smugglers on the EU border, he says.

On May 6, Moskal asked to resign, complaining that a local customs official was blocking his efforts to stop illegal smuggling. He only agreed to stay on after a May 10 meeting with Groysman and State Fiscal Service Head Roman Nasirov, during which Groysman ordered Nasirov to fire the official.

Zakarpattia Oblast, which borders four EU states – Slovakia, Hungary, Romania and Poland – is ideal smuggling country. According to Moskal, cigarette smugglers earlier earned Hr 1 million ($40,000) from each truck they sent to the EU, and Hr 1.5 million ($60,000) from those sent to Britain. Up to 12 trucks would cross the border every week, bringing in up to Hr 72 million ($2.88 million) a month in net profit for the smugglers.

“Now we have a stable system – you can try to bribe customs officers, but they all know that ... if they let through a truck, we might not see this man for 20 years,” Moskal said, referring to the possible prison term for smuggling.

“Tobacco smuggling is a transnational organized criminal activity, and Ukraine is just part of it,” Moskal said. “I can't even tell you who's the boss of it all, as it's an international syndicate.”

In a recent case, Zakarpattia customs officers found a car with diplomatic plates trying to bring 60,000 packs of cigarettes into the EU as “diplomatic cargo,” Zakarpattia Fiscal Service reported on May 21.

Illegal migrants also cross the border in Zakarpattia into the EU, while brand-name clothing is smuggled from the EU into Ukraine, Groysman said.

Low-tech, low wages

Meanwhile, Samopomich Party lawmaker Tetyana Ostrikova wants to take the human factor out of the customs problem.

She has proposed introducing new software to detect suspicious customs declarations, and prevent customs officials from altering the values of goods in electronic customs declarations – a common form of customs corruption.

Like Moskal, Ostrikova also thinks that checkpoints should have new scanners and weighing equipment. On top of that, there should be clear rules governing the actions of customs officials. If these are broken, the official should be dismissed, and then prosecuted, she said.

But for all that to happen, Ostrikova thinks the heads of all the customs departments in the State Fiscal Service have to be sacked. She also wants to see a rise in the number of customs officers working on the

When Ukraine's customs police should be strictly checking who brings what in and out of the country, often times they will close their eyes on illegal traders as long as they receive a bribe.

borders, while customs police and administrative staff numbers should be trimmed back.

Apart from poor equipment and opaque practices, low wages also engender corruption in the customs services.

Yulia Marushevska, the head of customs in Odesa Oblast, sees the extremely low salaries paid to customs officers as her primary problem. With an average salary of Hr 3,000 ($120) per month, customs inspectors can hardly make ends meet, and the state will never be able to fight corruption with them, she said at an Anti-Corruption Committee meeting on April 13.

To increase salaries, she proposed to introduce paid services, such as fast-track customs declaration procedures. “This is something that will help to reduce the risk of corruption, because our employees will no longer be prisoners to corrupt interests,” she said.

Problems at the top?

When there is talk of problems at customs, one name often crops up – that of State Fiscal Service Head Roman Nasirov.

Nasirov, an ally of President Petro Poroshenko who has the support of Prime Minister Groysman, has been involved in several spats with other officials.

Moskal threatened to resign after Nasirov appointed an ally, Andriy Krymskyi, as a deputy of Zakarpattia Fiscal Service. Moskal decided to stay on a governor only after Nasirov agreed to fire Krymskyi.

Marushevska has also clashed with Nasirov, whom she claims has been blocking her efforts to make customs clearance in Odesa faster and corruption-free. Nasirov and the Security Service of Ukraine have launched official inspections that Marushevska says have paralyzed her work. He has already filed three officials complaints against her, and also appointed one of Marushevska’s deputies without her approval.

Nasirov has also been in conflict with Konstiantyn Likarchuk, his ex-deputy. Likarchuk was fired last September after accusing his boss of appointing associates of ex-President Viktor Yanukovych to key jobs, and restoring Yanukovych-era corruption schemes.

Meanwhile, Likarchuk and investigative journalists have published documents showing that Nasirov failed to declare two apartments in London. Nasirov has denied any wrongdoing.

But Nasirov’s position seems secure for now. On May 18, parliament’s Customs and Tax Policy Committee had the chance to oust Nasirov, but the vote failed.

Only eight of the 32 members of the committee voted to recommend that the Cabinet dismiss Nasirov, said Ostrikova, herself a member of the committee. She claimed the decision to keep Nasirov in place was part of a political deal between the government and opposition lawmakers to secure support for the government’s program and the appointment of Yuriy Lutsenko as prosecutor general.


A worker at a Donetsk metallurgical plant. (Ukrafoto)

Ukraine vies for top honor in crony capitalism index

BY JOSH KOVENSKY
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It's progress of a sort, much the way that going from an F grade to a D+ grade is an improvement for a student.

Ukraine has dropped from 3rd to 5th place among 22 nations ranked in The Economist newspaper's ranking of crony capitalist countries.

The crony-capitalism index, published in The Economist's May 5 issue, lists world economies by the wealth of billionaires in so-called "crony industries" as a percentage of the country's overall gross domestic product.

In other words, out of the world's economies, Ukraine still ranks among the most afflicted by cronyism.

In 2014, in the magazine's previous ranking, only Malaysia and Russia were worse than Ukraine.

Now, in the 2016 ranking, Russia took the gold medal followed by Malaysia, the Philippines and Singapore.

The power of cronyism

Since the 2014 EuroMaidan Revolution, cronyism in Ukrainian politics has come to the forefront of the country's fight for change.

Cronyism – close ties between powerful businesspeople and the political elite – siphons billions of dollars out of the state budget. Just as importantly, this way of doing business prevents competent people from occupying key political positions, as oligarchs jockey to install officials not based on merit but rather on who will grant them favors.

"The biggest obstacle to reform is the close ties between the oligarchy and the corrupt political class," wrote European Council on Foreign Relations fellow Andrew Wilson in a report titled "Survival of the Richest: How Oligarchs Block Reform in Ukraine."

Wilson added that, shortly before the EuroMaidan demonstrations began in November 2013, the assets of Ukraine's 50 wealthiest people accounted for 45 percent of the country's GDP.

"The oligarchy's power comes first of all from the sheer concentration of wealth in its hands," he wrote.

How ranking is done

The Economist composed its index by consulting Forbes's list of the world's billionaires. The magazine then labelled each billionaire a "crony" or not, depending on how they earned their fortune.

Billionaires who became wealthy in industries dominated by cronyism would be marked as cronies. The industries that the magazine chose are areas where rent-seeking schemes are more likely to occur. Casinos, port management, and resource extraction all feature in the index.

From there, the magazine added up the net worth of each billionaire and then ranked the amount of money against the total size of the country's GDP.

"We aggregate the billionaires by their home country and express the total wealth as percentage of GDP," the magazine wrote, describing the system by which it determined the ranking.

In Ukraine's case, the London-based news magazine calculated the country's overall billionaire wealth as 7.8 percent of the country's total GDP of $177 billion (which Ukraine had in 2014 before dropping to under $100 billion in 2015) .

Out of that billionaire wealth, The Economist determined that 85 percent, or 6.7 percent of the country's total GDP, belonged to the "crony sector." According to The Economist's calculations, then, roughly $12 billion of the Ukrainian economy's GDP exists in the "crony sector" and belongs to billionaires who made their fortunes in industries susceptible to cronyism.

The magazine didn't offer a theory for why Ukraine's ranking improved.

"The oligarchic system is the great iceberg in Ukrainian politics," Bloc of Petro Poroshenko parliament faction lawmaker and journalist Sergii Leschenko was quoted as saying in the European Council on Foreign Relations report. "Warmer waters have maybe melted it by 30 percent, but it is still dangerous."

Mobile operators investing millions in new technologies, hoping to reap future profits

BY DENYS KRASNIKOV
KRASNIKOV@KYIVPOST.COM

Participants of Ukraine iForum surf the internet using their smartphones in Kyiv on April 16, 2015. (Volodymyr Petrov)

Ukrainian telecom companies are betting on a brighter future in Ukraine. This is good because the country has a lot of catching up to do in several areas of global technology.

Hence, telecom companies will need to invest hundreds of millions of dollars that will take time to show profits.

How far behind is Ukraine?

Mobile operators only started speedier third-generation or 3G technology a year ago in June, more than a decade after such data networks appeared elsewhere in the world.

Already the United States and other more advanced nations are preparing to provide 5G services, an even faster mobile network.

Yet, despite the delay, three foreign telecom companies in Ukraine – Turkish Lifecell, Russian MTS' Vodafone Ukraine and VimpelCom's Kyivstar – are trying to catch up by boosting investments into wireless services in Ukraine.

Kyivstar has spent $142 million this year on its 3G rollout; the cost of acquiring the license was $100 million. These are not the highest numbers. Lifecell and Vodafone Ukraine have put even more money, $238 million and $283 million, respectively.

Although Vodafone Ukraine and Kyivstar have not disclosed financial information, Lifecell's annual report says its net loss for 2015 is over $176 million.

Vodafone Ukraine's CEO Olga Ustinova says every Ukrainian mobile operator tries to improve service through greater investment, but Ukraine's laws hinder progress.

"We would like to build 3G faster, but despite investing lots of money, we are limited by Ukraine's Soviet-times laws," Ustinova told the Kyiv Post. "The electromagnetic radiation norms in Ukraine are simply outdated – 10 times different from Europe. We need to erect more towers, but we can't."

Besides, every wireless carrier has to obtain certain permits before network installation, which takes several months, she said.

Lifecell has roughly 13 million subscribers in Ukraine, while Kyivstar has

25 million, Vodafone Ukraine has up to 23 million. Many customers have accounts with more than one operator in Ukraine to avoid paying for out-of-network calls.

According to the World Bank, the per-capita annual income in the country is about $3,500, while the national currency has lost two thirds of its value over the past two years. Although average revenue per user is rising, most of the population is still not ready to pay more than $2 per month for cellphone services.

The low prices make it hard for Ukrainian operators to raise the capital needed to replace outdated technologies.

"We'd like to raise prices, but the competition does not allow us to do so," Vodafone's Ustinova said.

And the Lifecell's Oksana Rudiuk, the company's spokeswoman, agrees.

"It is hard to profit on the market if you are not a monopolist," Rudiuk told the Kyiv Post. "The rollout of new technologies needs large dollar value investments, but our income is in hryvnia. Besides, the average revenue per user stays at a low level."

Against the odds, the telecom rivals have faith in the local telecom market and hope this business will bring more money when country's condition is better.

The three operators are among the largest employers in Ukraine, collectively providing 9,000 jobs.

"We are absolutely dependent on purchasing capacity of our subscribers," Kyivstar marketing director Sviatoslav Horban told the Kyiv Post. "So when the war ends, economics stabilizes and gross domestic product shows at least a little growth, the telecom industry will react with positive results."

The Kyiv Post's IT coverage is sponsored by Beetroot, Ciklum, Steltec Capital, 1World Online and SoftServe. The content is independent of the donors.

Ukraine still stuck in paper world, limiting e-commerce

BY DENYS KRASNIKOV
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It's been a good year for Ukraine's electronic commerce market.

The rollout of third-generation mobile telecommunications technology, which has increased smartphone use, means there are more e-customers online to sell to. And Ukraine's first law on e-commerce, which entered force in September 2015, has made it considerably easier to run an online business in Ukraine.

The most recent annual report by the National Bank of Ukraine shows that e-commerce is on the rise: in 2015 goods and services worth nearly $700 million were sold online, with 300,000 transactions being conducted – 23 percent more than in 2014.

"Nowadays it is pretty easy to start operating on the local e-commerce market," Irina Kholod, the CEO of e-commerce consulting company Ukrainian E-commerce Expert, told the Kyiv Post. "It's neither hard nor expensive. But it's also easy to be shut down – stop paying for hosting and that's it."

Irina Kholod, the CEO of e-commerce consulting company Ukrainian E-commerce Expert, speaks with the Kyiv Post at her company's Kyiv office on May 23. (Volodymyr Petrov)

Legal firewall

But while an e-business that only operates in-country can sell its wares over the Internet easily, avoiding excessive bureaucracy, any company that wants to sell products to customers abroad over the Web quickly runs into a legal firewall.

That's because any e-commerce transaction that is made from abroad is defined by Ukrainian legislation as foreign economic activity, so any e-business in vega telecom

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Ukraine that sells to foreign buyers is subject to Ukraine's currency controls.

Foreigners who buy Ukrainian goods over the internet and the Ukrainian sellers have to provide documents – an invoice and a purchase/sale agreement – signed by both sides and verified by a bank. After that, the bank receiving the payment from abroad has to convert 75 percent of the incoming payment from foreign currency into hryvnias, using the central bank's official exchange rate. The remaining 25 percent goes to a reserve account, and is held in foreign currency, but when withdrawn must also be converted into hryvnias. The banks charge commission on the withdrawal.

That's not all: All the documents for the e-transaction have to be in paper form, and signed and sent by post by the buyer to the vendor, totally negating the whole point of e-commerce's convenient, paperless business model.

"Who would do all that?" Kholod asked, and answered herself: "A very few people – the most persistent ones."

Offices abroad

Big foreign e-commerce marketplaces, like Amazon or eBay, and most European and U.S. companies use internet-based money transfer services such as PayPal, but this service is still limited in Ukraine.

Ukrainians can send other PayPal users money, but they are not able to receive payments back, so any Ukrainian e-business that wants to sell products on a foreign virtual marketplace and be paid using PayPal has problems to overcome.

Some Ukrainian banks now offer to cash money from a PayPal account, automatically converting the money into hryvnia, but they charge an additional 15-40 percent commission for the service.

Kholod said Ukrainian e-businesses that sell to foreign customers often establish offices in other countries, export their products to those offices, and then work under those countries' e-commerce legislation.

That allows Ukrainian e-businesses "to gain benefits from the payment systems" available in other countries, Kholod said.

"This is the reason some Ukrainian companies move abroad" or establish their main headquarters there, leaving the office in Ukraine as an outsourcer with an affordable labor force, she said.

Workarounds

The solution would be to create a similar law to the one that governs domestic e-commerce, but for e-commerce that is carried out with foreign buyers.

The current law on e-commerce business was drafted in 2013, but approved by parliament and signed by Ukrainian President Petro Poroshenko only in September 2015.

"And it works well within the country," Kholod said. "It has fully legalized the operation of Internet shops here. The same law, but for foreign operations, would make selling Ukrainian goods abroad easier."

The first step towards establishing an e-commerce foreign payment system was taken earlier this year, when the National Bank of Ukraine introduced regulations that allow citizens of other countries to transfer electronic money to accounts in Ukrainian banks.

That's when the banks were allowed cash money from PayPal users' accounts.

The amendments, according to Ilia Kenigshtein, an advisor to Lviv Mayor Andriy Sadovyi who is lobbying PayPal to offer a full service in Ukraine, were a "little step closer" to attracting the international online payment system to the country.

Meanwhile, Ukrainians will continue to use the present workarounds, or find new ones, experts said.

Ukrainian E-commerce Expert's Kholod said the Ukrainian market was used to "existing in the realities we have – our people are inventive."

She said an e-commerce section was something every modern business "must have," and said she hoped Ukraine would soon learn how to do business over the Internet with buyers that are outside the country.

After all, more and more Ukrainians are getting used to buying online, and the market is only going to grow from now on.

"Those who start buying online usually continue," Kholod said.

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More Ukrainians are buying goods online rather than going to stores. During the past year alone, online transactions increased more than 20 percent in the country, to $700 million in goods and services sold online.

ACCOUNTING&AUDIT

The Odesa Portside Plant, one of Ukraine's largest nitrogen fertilizer producers, will go on sale this summer. (Ukrafoto)

International auditors start to explore terra incognita of state-owned companies

BY OLENA SAVCHUK
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In the account books of Ukraine's biggest government-owned enterprises, international auditors found all vices of state management: sweetheart deals, political populism, inefficiency, obsolete assets.

A government decree forced the biggest Ukraine's state-owned enterprises to undergo an international audit, a novelty for many of them.

In June 2015, the government approved new criteria for firms which can audit the 150 biggest state-owned enterprises. The new requirements allow only the biggest international auditing firms to take part in tenders.

Andriy Tsymbal, the managing partner of the Ukrainian subsidiary of Swiss firm KMPG, said the process is being sabotaged by local managers who are "not very interested in having an audit, so the timeline for the tenders and the audit itself is extended."

As of May, just 36 state companies passed or are passing the audits and seven are holding tenders for the examination.

Mismanaging state assets

The government owns 3,340 enterprises. The top 100 account for 90 percent of assets and are worth Hr 926 billion ($36.8 billion).

Financial losses of state-owned companies are covered by taxpayers.

But in nine months of 2015, the top 100 enterprises managed to bring the state Hr 2.2 billion ($87 million) in profit, reversing record losses of Hr 66.5 billion ($2.6 billion) in 2014. Increasing utility tariffs to market levels and cutting subsidies get most of the credit.

But state enterprises remain inefficient, outdated and produce less revenue they could – hence, years of unheeded calls to privatize them.

Economy Minister Stepan Kubiv wants only 705 enterprises to remain under state control, but needs parliament's approval.

The process is expected to start with the sale of Odesa Portside Plant, one of Ukraine's leading chemical producers, this summer. The price starts at Hr 13.2 billion ($521 million). Six electric power distributors are expected to get sold also.

Further privatization is another reason why the government wants state-owned assets to have a history of trustworhty international audits, said Alexander Pochkun, managing partner of Baker Tilly.

Corruption in balance sheets

According to Tsymbal, it is rare that a state-owned enterprise receives the highest mark from an auditor.

"To the best of my knowledge, the Ministry of Economic Development, which is supposed to oversee them, does not analyze in detail what are the results of the audit," he said.

Given the bad reputation of state-owned enterprises, many expected that international auditors would find outright corruption. Indeed, "there are undisclosed related body transactions between the state-owned enterprises and, let's say, relatives of management of state-owned enterprises," Tsymbal said.

But no outright theft was found.

Sweetheart deals took place in subtle ways, but the fraud added up over time. However, a financial audit is not a forensic investigation and it not tasked with identifying corruption, he said.

The Soviet holdovers were not treated as businesses, so never learned how to operate properly. "This is creating the background for corruption," Pochkun said. "If the state does not use this company to generate profit, it means that somebody else will generate the profit from it."

Ghost assets

State-owned properties are expected to lose value after audits.

Evaluation of fixed assets, like buildings and equipment, is hard. Many post-Soviet companies had old purchase documents that are impossible to verify. Others had poor appraisals done.

Local practices contradict international ones. For instance, assets which do not exist or are broken should be taken off financial reports, but they cannot be written off due to complicated procedures in Ukraine. So eventually those assets are mentioned in records but auditors do not take their value into account.

Another problem is bringing financial statements in line with International Financial Reporting Standards.

Private vs state-owned

Given the need for foreign investment in Ukrainian state enterprises, the demand for international audits will remain high. However, auditors try not to rely on the state sector too much.

"I am still scared that something can be turned back," Porchkun said.

Clients in state-owned enterprises also differ from those in the private sector. The management in a private company cooperates with auditors while the state ones see the audit as a requirement "imposed on them," Tsymbal said. "They often do not understand why it is."

Auditors say many state-owned enterprises to not comply with International Financial Reporting Standards. (pixabay.com)

International officials attend a panel discussion during the Anti-Corruption Summit London 2016, at Lancaster House in central London on May 12. Ukraine committed to taking a number of steps toward increasing cooperation with international law enforcement at the summit. (AFP)

US, UK will organize forum next year to help Ukraine recover stolen assets abroad

By YULIANA ROMANYSHYN
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How does Ukraine, which by all measures should be a rich country, manage to stay so poor? A big answer is corruption.

Over the past decade an estimated $100 billion in illicit funds has gushed out of the country. But new commitments Ukraine signed up to at a recent anti-corruption summit could cut that figure drastically.

Delegates from more than 40 countries attended the United Kingdom's Anti-Corruption Summit in London on May 12, which was devoted to launching a coordinated, worldwide effort to end graft in all countries.

Ukraine is no exception. In fact, Ukraine was one of the priority topics at the summit.

So was Britain, a top destination for parking ill-gotten gains for corrupt officials from around the world. It often goes into expensive London real estate. Lax British legislation on offshore companies, which allows corrupt officials to cover their financial tracks, doesn't help either.

British officials, during the summit, declared they would help nations like Ukraine to return stolen assets that had been hidden in the United Kingdom - that is, as long as their law enforcement agencies cooperate with British authorities in the effort.

Tax Service Chief Roman Nasirov represented Ukraine at the summit, after President Petro Poroshenko cancelled to oversee the appointment of new Prosecutor General Yuriy Lutsenko.

At the summit, Ukraine committed to enacting legislation that would allow foreign law enforcement access to the country's list of beneficial owners of companies. It also promised to work with the International Anti-Corruption Law Enforcement Center, and said it would implement the Organization of Economic Cooperation and Development Anti-Bribery Convention in order to better cooperate with foreign law enforcement.

Efforts to boost law enforcement cooperation between states will be followed up with another special event in 2017.

Next year's global asset recovery forum will focus on returning corruptly obtained assets to Ukraine, as well as to Sri Lanka, Tunisia, and Nigeria. Announced by the British government but to be held in the United States, the forum will attempt to foster cooperation between international law enforcement in order to return stolen assets to the four countries. Ukraine has committed to attend the event.

The full amount of money stolen from Ukraine's economy is difficult to estimate because of the shady and complex schemes applied by businesspeople, many of whom are politicians or oligarchs or who have strong influence on government.

But the estimates that have been made are astounding. According to one study done by Global Financial Integrity, a non-profit think tank and watchdog, between 2004 and 2013 Ukraine lost about $11.6 billion a year because of corrupt financial schemes. Ousted President Viktor Yanukovych's corrupt circle alone managed to rob the country of about $40 billion during his four years in office, it is reckoned.

Almost none of it has been recovered, partly because Ukraine's prosecutors and courts are obstructing investigations.

Property registry, beneficial ownership?

The summit has followed years of criticism that the U.K. allows corrupt foreign officials to conceal their money in the country, either through bank accounts registered to shell companies, or in the form of anonymously owned real estate.

Rachel Davies, the head of advocacy and research at corruption watchdog Transparency International - U.K., said that anonymity in ownership "creates an environment in which the corrupt can hide."

Daria Kaleniuk, executive director at the Anticorruption Action

Centre in Ukraine, who attended the summit, said that Ukraine's involvement in international anti-corruption efforts represented a step forward.

"It is additional leverage for civil society," she said, commenting on the summit's potential impact.

Another of Ukraine's commitments was to agree to launch an e-declaration system for public officials by August, and to expand its public registry of final beneficiaries of every Ukrainian company.

According to Kaleniuk, expanding the registry would mean naming and verifying the beneficial owners of every company in the country.

Any company that did not name its beneficiary would be automatically prevented from participating in public procurement projects and would also be banned from receiving state loans.

The register should be improved to verify the identiy of the beneficial owner by the state tax and anti-monopoly agencies, Kaleniuk said.

"It's important not to overdo it, and not give excessive powers to Ukraine's non-reformed regulatory authorities, which might start going after legitimate businesses," she said.

Ukraine's commitments, if fulfilled, would in turn allow the country's law enforcement to access the British registry of beneficiaries – a move that could help track money that has been taken out of Ukraine by corrupt officials.

No home for assets

However, without the political will to prosecute corrupt officials at home in Ukraine, experts say that access to the British registry would have little effect.

In fact, Ukrainian prosecutors' inaction or obstruction has already allowed many suspected financial crimes to go uninvestigated or unpunished.

Mykola Zlochevsky, Ukraine's former ecology minister, had $23 million in frozen British bank accounts released in January after a British court found that there was insufficient evidence of a crime. The ruling came after General Prosecutor's Office in Ukraine failed to send evidence and told the British court that no investigation was under way.

Yevgen Chernyak, an analyst at Transparency International-Ukraine, told the Kyiv Post that the return of estimated €200 million of frozen Yanukovych-era assets from the European Union would only be possible after Yanukovych was tried and convicted.

"If there is no conviction in Ukraine, there is no home to return to," Chernyak said.

Top 20 Richest Ukrainians as of January 2015

Ranking	Name	Company	Fortune (million, $)
1	Rinat Akhmetov	SCM Group	7,700
2	Igor Kolomoiskiy	Privat Group	2,000
3	Hennadiy Boholubov	Privat Group	1,900
4	Victor Pinchuk	EastOne	1,800
5	Vadim Novinskiy	Smart-Holding	1,600
6	Kostyantyn Grihoryshyn	Energy Standard Ltd.	920
7	Leonid Yurushev	Yaroslavov Val	900
8	Dmytro Firtash	Group DF	880
9	Oleksandr Yaroslavskiy	DCH Group	850
10	Oleh Bakhmatiuk	UkrLandFarming	800
11	Yuriy Kosyuk	MHP	750
12	Petro Poroshenko	Roshen Corporation	730
13	Serhiy Tigipko	TAC Group	670
14	Leonid Chernovetskiy	Chernovetskyi Investment Group	650
15	Kostyantyn Zhevago	Ferrexpo	640
16	Andriy Verevskiy	Kernel Group	620
17	Vitaliy Hayduk	Industrial Group	577
18	Mohammad Zahoor	ISTIL Group	500
19	Viktor Nusenkis	Donetsksteel	470
20	Vyacheslav Bohyslaev	Motor Sich	437

Source: Focus Magazine

It is difficult to estimate how much exactly Ukrainians make because of non-transparent business practices. But, according to Ukraine's Focus Magazine, the country's top 100 richest control a third of the nation's and the top 10 alone own more than 16 percent.

Kovaliv's ambitious plans for rebuilding nation's economy

BY ILYA TIMTCHENKO
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Ukraine's First Deputy Economy Minister Yuliya Kovaliv told the Kyiv Post that the state must privatize or liquidate Ukraine's most of the 3,000 state-owned enterprises, leaving only 100 of the most strategic enterprises under state control. (Kostyantyn Chernichkin)

With one foot in the Economy Ministry and the other in the management of two of Ukraine's biggest state-owned monopolies, First Deputy Economy Minister Yuliya Kovaliv is poised to take the top job if she wants.

In fact, former Economy Minister Aivaras Abromavicius and a current colleague, Deputy Economy Minister Nataliya Mykolska, both suggested that she take over the ministry when the previous government of Arseniy Yatsenyuk was still in office.

She refused the job but has been kept as first deputy minister by Abromavicius' successor, Stepan Kubiv.

"I think I can achieve the best results working here just now," Kovaliv told the Kyiv Post during an interview on May 12 at the Cabinet of Ministers of Ukraine. "Besides, I'm not a politician, and the position of the minister is more of a political position. In terms of real results, it's much easier to achieve results at the position of deputy minister, because you have no direct responsibility to be a politician."

Kovaliv's approach might be best summarized as rebellion against Soviet thinking.

"We have a lot of paternalism in people's heads," Kovaliv. "The state can't be the mother and father to everyone. People have to try to understand that they really are the owners of their lives and the owners of their own success."

Mixed background

The 33-year-old Kovaliv, an Ivano-Frankivsk native, graduated with honors from Kyiv-Mohyla University in 2005 with an economics degree. She also took a short course in leadership and public sector management at Harvard University's Kennedy School of Government.

She then worked at Ernst and Young, now EY, and then as the financial director of Gazeks Ukraine, a gas company owned by Russian oligarch Viktor Vekselberg.

"It was 2008-2009, so there was no big politics," Kovaliv said. "And this company was really one of the most transparent in the market."

Later, in 2012, she worked on a McKinsey & Company project where she was in charge of drafting energy sector reforms for the government.

"We tried around 7-8 times to draft and approve the law on independent (electricity) regulators," Kovaliv said. "Unfortunately, it's still not been implemented, although the legislation has really been ready since 2012."

New government

After the 2013-2014 EuroMaidan Revolution, Kovaliv was appointed in August 2014 to the National Commission on Energy Sector and Communal Services Regulation. Less than a year later, in June 2015, she was appointed as first deputy minster of the Economy Ministry.

She sees Kubiv, who is also a vice prime minister in the government, as the right man to replace Abromavicius.

"The very important thing... is that the new minister asked all of us to stay," Kovaliv said. "All of the deputy ministers in our team are staying."

The only new deputy minister that will be brought in is the one who will replace Ruslan Korzh, who was responsible for state property management and industrial policy at military state-owned enterprises.

So the priorities remain the same and Kubiv, as first vice prime minister, might have the clout "to help us to see success more quickly," she said.

Privatize everything!

Kovaliv wants to privatize almost all of the nation's 3,500 state-owned enterprises, half of which are idle. So far, only about 40 have been privatized. Kovaliv says the state should own only about 100 enterprises

Her priority now is to cut the list of companies that are banned from privatization, particularly in the agriculture and infrastructure sectors. The Economy Ministry is currently working on a detailed inventory of every state-owned enterprise.

Those state-owned enterprises that can't be sold off will be liquidated.

"We are now discussing with the State Property Fund the establishment of a special unit that will be fully in charge of the liquidation of state-owned enterprises," Kovaliv said. "Because if this task spread out among all of the ministries, it'll be very hard for ministers or for the head of any government body to manage."

Another priority for Kovaliv is to see the draft law on corporate governance approved in parliament. It was vetoed by President Petro Poroshenko. Kovaliv said the law would ensure transparency in corporate governance.

Cleaning up Naftogaz

Kovaliv is the only person who is a member of the board of directors of both of the nation's two largest state-owned monopolies – Naftogaz and Ukzaliznytsia.

Naftogaz is "really the first case of good corporate governance reform, and at the biggest oil and gas company in the country," she said. The board consists of three independent board members, plus one supervisory member appointed by the president – former Energy Minister Volodymyr Demchyshyn – and another appointed by the Cabinet – Kovaliv – who is also the chairperson of the board.

Naftogaz delays

Naftogaz has carried out a number of reforms since 2014, such as changing its administration to a more pro-Western technocratic one, cutting down on imports from Russia, raising domestic gas prices closer to European Union standards, and reducing its dependence on subsidies from the state budget – to the point where Naftogaz will not need state subsidies this year.

But the unbundling process, which would separate gas suppliers from distributors and operators and make it easier for independent companies to compete, has been delayed.

The European Commission has set June 1 as the deadline for unbundling, Vice President of the European Commission Maros Sefcovic said at an energy conference in Kyiv in March. "Failure to meet this deadline would send a very bad signal to investors in the gas and energy sector... namely that Ukraine is not ready for deep reforms, or sufficiently committed to them," Sefkovic said.

But Kovaliv says that Ukraine will meet this deadline.

"We're obliged to," Kovaliv said. But "we're not talking about a date for actual unbundling, we're talking about the date when we have to adopt a model for unbundling."

State-owned Naftogaz significantly cut its losses in the last year. (Volodymyr Petrov)

Smart subsidies

Kovaliv says Naftogaz will cut subsidies to consumers, but still give them to those who really need help. In 2014 subsidy payouts totaled Hr 110 billion ($4.4 billion) from both the state budget and the gas monopoly. In 2015 that figure fell to Hr 43 billion ($1.72 billion), with Hr 25 billion ($1 billion) coming from the state budget and the rest from Naftogaz. In 2016 there will be no help coming from the state budget, and Naftogaz will pay Hr 40 billion ($1.6 billion) in subsidies.

"We're becoming more efficient in terms of what we subsidize, and what's more important, to whom we give these subsidies," Kovaliv said.

If Ukraine can hold gas prices at international levels, while investing into extraction and sustainable energy, Kovaliv says Ukraine could be nearly energy independent by 2020.

"That means we won't be importing gas, it means that we'll have energy security, and it means that gas won't be a political issue," Kovaliv added.

Sustainable energy

Kovaliv believes renewable energy could account for 11 percent of Ukraine's energy sector in just four years, up from 1 percent now.

"Honestly speaking, our regulations on renewables are some of the most favorable of all European countries," Kovaliv said.

"We're a big agricultural country, and we're just losing all of this agricultural waste, which could be used in biomass and biogas production," Kovaliv said. "This really is a new market, a new opportunity, but still we need to give the signal to investors."

But parliament is stalling while big investors complain that Ukraine lacks political stability. To some extent, Kovaliv said, they are right: "Every year, each month, there's another debate on whether we'll reduce the green tariffs, or increase them and change the regulations, and so on so forth."

REAL ESTATE

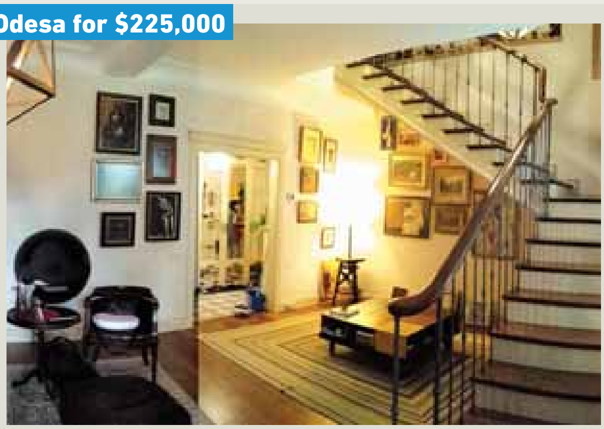
What can you buy for $120,000 to $400,000 in residential market?

The Kyiv Post asked some of Ukraine's biggest real estate agents, Blagovist in Kyiv, Atlanta in Odesa and Duokom in Lviv, what are the best deals on offer.

Kyiv for $150,000

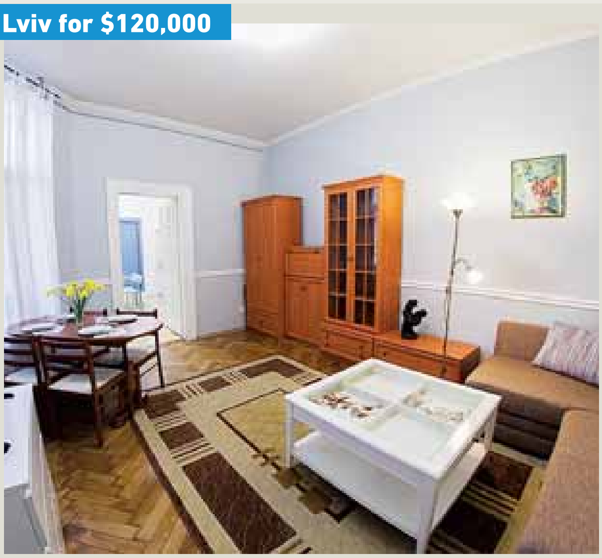
This spacious one room, 61-square meter studio apartment in the Pechersky district of Kyiv complete with quality finishing. The newly built building has 24-hour security and underground parking. The panoramic windows on the 14th floor offer views of the Dnipro River. The apartment is located only a five-minute walk from Druzhby Narodiv metro station. All essential appliances as well as air conditioning are included.

Odesa for $225,000



This central large two-story apartment has a living room, kitchen-diner, bathroom and two balconies on the first floor and two bedrooms, a bathroom and a dressing room on the second floor. The apartment was renovated four years ago and was finished with oak parquet and Italian tile floors. It is completely furnished, including household appliances. The windows and balconies face into the courtyard. It's also hard to beat in terms of location: right next to Cosmonaut Park and the Black Sea is just a 15-minute walk. The total floor space is 145 square meters.

Lviv for $120,000



This 70-square meter, two-room apartment on Lviv's main square, Plosha Rynok, has been recently refurbished. The apartment has plenty of storage including a pantry in the kitchen. It is surrounded by the best restaurants and cafes in the city. All furniture and household appliances are included.

Kyiv Oblast dacha for $400,000

This huge four-bedroom house is located near the village of Gorbovychy, 35 kilometers west of central Kyiv. It boasts 320 square meters and overlooks a lake fields. The house is fitted out with luxury furniture, high quality appliances and the living room has an indoor fireplace. It also comes with a sauna, a garage and a terrace with looks out onto a 2,400 square meter garden.

ENERGY

Ukrainian gas employees stand near a gas installation in Boyarka near Kyiv on April 22, 2015. Ukrnafta has suffered from years of mismanagement, leaving it with outdated and decaying infra-structure. (Kostyantyn Chernichkin)

Ukrnafta tries to dig itself out of debt, stagnation

BY JOSH KOVENSKY
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For Ukraine, energy independence doesn't just mean weaning itself off imported Russian gas.

For Ukrnafta, Ukraine's state-owned oil and gas extractor, financial independence means breaking free from shareholders who have brought the company to the verge of bankruptcy or a possible fire-sale price to a private owner.

A new management team wants to overhaul the company, but such a step will require the approval of the company's government and private shareholders. The Hr 18 billion ($700 million) in debts, including Hr 10.6 billion ($424 million) to the Ukrainian government alone, were accumulated from allegedly fraudulent schemes by minority shareholders.

Ukrnafta produces more than 86 percent of the country's daily oil output of 40,000 barrels and it also extracts more than 16 percent of Ukraine's total annual gas production of roughly 20.5 billion cubic meters.

Ukrnafta is 50 percent plus one share owned by the state-controlled Naftogaz energy firm. Billionaire oligarch Ihor Kolomoisky owns 42 percent through Privat Group, while another 8 percent belongs to pension funds representing former employees.

Privat did not reply to multiple requests for comment. Kolomoisky has responded to allegations of wrongdoing by arguing that the company owes him money.

How did the debt pile up?

According to Samopomich Party lawmaker Victoria Voytsitska, "Ukrnafta is not just a legal entity… it's a source of cash" through improper pricing agreements.

At the center of the allegations is Kolomoisky, whose companies, known as informally as the Privat Group, began to acquire shares of Ukrnafta in the early 2000s. The company had total income of Hr 28.94 billion (more than $1 billion) in 2015.

Privat Group also controls Ukraine's only oil refinery – the Kremenchug plant. Kolomoisky allegedly ran a scheme in which Ukrnafta sold its oil at rates far below market price to traders that Privat Group controls, who then resold it to customers at market rates, giving Privat a huge windfall profit while starving Ukrnafta of cash.

Although this scheme was halted last year, Voytsitska said that Kolomoisky restarted it in April to September of 2015. During that time, Voytsitska said, the company was in the process of selecting a new CEO – British citizen Mark Rollins – who "physically took control of the company only in October of last year."

Voytsitska claimed that the absence of a CEO from April to September 2015 opened up a gap in oversight that allowed Kolomoisky to restart the schemes.

"It's a state company that must sell gas and oil, and there's only one refinery," Ukrnafta Executive Vice President for Sustainability Gennadiy Radchenko told the Kyiv Post in an interview.

Another abuse saw Privat's representatives fail to turn up to shareholder meetings, blocking company decision-making, including the payment of dividends to shareholders. Though debts from this scheme remain, a new law changes management rules for state-owned companies and prevents the minority shareholders from repeating the same maneuver.

Still, these schemes left the company so deep in debt that the next step could be bankruptcy and a forced sale at rock-bottom prices, a potential coup for Kolomoisky.

Radchenko echoed Voytsitska's assessment, albeit with a different spin.

"These companies are seen not just as suppliers of gas, but as producers of money," Radchenko said. "For me personally, it's very odd that everyone talks only about money and not about how to make Ukraine energy independent."

He argued that a lack of focus on the company's main business of extracting oil and gas had effectively hobbled it, leading to production dropping by up to 20 percent each year.

"There's no development, no resources, no research, no new drilling, no exploration," Radchenko told the Kyiv Post.

The plan

Ukrnafta's management is now trying to get the company out of the crisis and repay its debts while also transforming it into a profitable company. Debt restructuring would buy the company time.

In the meantime, Radchenko says, Ukrnafta can attempt to reduce its operating costs. The firm employs 26,000 people across Ukraine and many of these positions are unnecessary – a common problem in the government sector.

"Only 500 work in Kyiv, the rest work elsewhere," Radchenko said. "But if you reduce what isn't necessary, what's ineffective, then a big social problem appears. And as these people are also protected by state social guarantees, and by unions, it's very difficult."

Still, the company plans to double its oil and gas output over the next 10 years by investing revenues into exploration and modernizing its Soviet-era technology.

What is to be done

After months of delays, the company's supervisory board took a tentative step towards approving the plan in a May 24 meeting.

Speaking about the results, Kolomoisky told the Kyiv Post it went well. "All the participants voted unanimously," he said.

The ongoing delays prompted Voytsitska, along with fellow Samopomich Party lawmaker Andriy Zhurzhiy, to file a complaint against Naftogaz CEO Andriy Kobolev. The lawmakers allege that Kobolev is being "criminally negligent" by failing to act on the debt-reduction proposals, allowing the company's arrears to grow.

Kobolev, also at the May 24 meeting, said the final decision on company's plan will be made at a July 7 general shareholders meeting.

"If we see we can't reach a compromise with the main creditor, which is now the State Fiscal Service, then the restructuring will make no sense," Kobolev said and Ukrnafta will more than likely have to "stop its activity."

Referring to Kolomoisky, Voytsitska said: "It's a blackmailing of the entire state."

Armed men affiliated with billionaire Igor Kolomoisky guard Ukrnafta's Kyiv headquarters on March 22, 2015. (Volodymyr Petrov)

Taras Burdeinyi: This year we plan to increase the volume of gas production up to 2 billion cubic meters

Taras Burdeinyi

Burisma's CEO for Ukrainian operations

In 2015, the subsidiaries of Burisma Group increased the volume of natural gas production. What are your plans for 2016, due to which factors does Burisma expand its business?

We expand our business due to equipment investments, people and technology. At the moment, we have assembled the best experts and the most innovative equipment, which allows us to drill slanted wells 2,900 meters deep in three weeks.

This year Burisma plans to drill 16 wells over 4,000 meters, and 5-7 wells under 4,000 meters. At the moment, seismic surveys are being conducted at four units at the same time. We put into operation a well with a depth of 5,620 meters, which provides a profit of 280,000 cubic meters of gas and 25,000 cubic meters of condensate per day. And we have not uncovered the most powerful horizons yet. According to the results of the well exploration, it was taken a decision to drill another well within the Vodyanovsk field. In May, we plan to drill a well with a planned depth of 5,800 meters, and to accomplish it in five or six months. In 21 days, there was drilled a well 2,870 meters deep with an inclination angle of 45 percent within the Proletarian field. All this allows us to reach the planned production volume of 1.8 billion cubic meters of gas, but this year we plan to increase the volume of gas production up to 2 billion cubic meters of gas.

What projects did Burisma implement in 2015?

We built an additional gas piplene between Kharkiv and Shebelinka, which cost us Hr 18 million, and conveyed it to "Transgaz" system for free. This made it possible not only to facilitate the work of Kharkov ring, but to operate the Ukrainian gas transport system more efficiently. With this ring all the gas companies (including state-owned ones) operating in Kharkiv Oblast can increase the output without violating the regulations. This is a net investment in the government project for the more efficient gas production. Today there are no similar investments, where private companies would invest in the state system of gas transmission.

Burisma also launched a gas pipeline over 30 kilometers long in Kharkiv Oblast which connects gas transport providers' nets to our company fields. This will increase production and ensure transmission of 4 million cubic meters of gas per day.

How much did it cost to build a gas piplene?

The project cost amounted to more than Hr 150 million. It is noteworthy, that it was built and put into operation within three months. Easements were signed with more than 200 landowners. So, in order to accelerate the construction, we announced a tender among private companies for the construction of a10-kilometer stretch.

We implemented the other important and promising project on liquefied gas. We are the first company in Ukraine to design and launch installations for extracting propane-butane fraction by absorption unit and modular turboexpanders. This will enable additionally liquefied gas extraction from natural gas. The plant capacity will amount to more than 1.5 million cubic meters per day. There are no analogous facilities in our country.

We also implemented the other interesting project on methanol recovery. Our methanol recovery technology allows us to minimize import dependence. For example, some time ago, six tons of methanol would be purchased at the one of our fields daily, today — only two tons. As a result, we save up to 60-70 percent, which equals to Hr 100,000 per day.

In addition, innovative methods of horizontal drilling, used in more than 50 percent of our wells in complex geological conditions, enables Burisma to be welcome partners within large international projects.

Last year Burisma announced about its activities in Kazakhstan and Italy. What projects may contribute to the company's portfolio in 2016?

Even though, the Holding's activities differ in these two countries (in Italy, the holding company develops geothermal field), we convey our competences to international markets. First of all, our service and our drilling technologies. Burisma owns the largest rig fleet in Ukraine, including heavy drilling rigs, that enable to reach the depth of up to 10,000 meters.

In Kazakhstan, we signed an agreement with the National Oil and Gas Company "KazMunayGas" and its subsidiaries. For example, we signed a contract with "KMG Drilling & Services" to perform a drilling of a directional appraisal well at the Urikhtau field.

In Italy, it's a new aspect, specializing in the electricity production from renewable and environmentally friendly geothermal sources in Europe. An international group Gesto Investimento e Gestão (G.I.G.) became our partner in the Italian project, and now we cooperate on three projects.

Companies in Mexico and the United Arab Emirates would also like to see us, as their investors and partners. Currently we estimate the prospects of a series of projects; we will be able to tell you more about it later.

Is it worthwhile to invest in Ukraine at the moment?

But, in spite of macroeconomic and political risks, we continue to invest in Ukraine. Our principled position is to form an energy independent state and develop the Ukrainian gas production market. The future of Ukraine depends on having an energy independent state, which would be able to provide completely its market with domestic extracted gas.

Despite market expansion, the Ukrainian market remains strategic for us. Burisma is the most recognizable Ukrainian gas company in the world. We promote the "made in Ukraine" brand in the world as a part of the qualification potential of Ukrainian universities and the technological possibilities of the Ukrainian companies. The company became a "guide" of energy independent implementation in terms of Ukrainian national policy.

Despite the difficult situation in the country and "unfriendly" fiscal policy in 2014-2015, we continue working on our projects on the natural gas exploration and production. In 2014, production amounted to 692 million cubic meters, in December 2015, we managed to increase the production volume to 1.2 billion cubic meters in annual equivalent.

Last year our companies paid about Hr 3 billion in taxes. According to this number, the group is among the three largest industrial taxpayers of the country, which demonstrates the social orientation of the company and compliance with international practices.

Does Burisma plan to cooperate with a state-owned company "Ukrgasdobycha"? In which format?

We actively upgrade our rig fleets. This year we purchased a new drilling rig SK — 3000 with the load capacity of 750 tons. This is the most powerful rig, not only in Ukraine but also in the Commonwealth of Independent States. We also bought a new U.S. fleet for hydrofracturing, which consists of 15 pumps with a total capacity of 35,000 horsepower. We can say, that this national project will give an opportunity to participate in tenders for services of various companies, including the largest state-owned gas producer "Ukrgasdobycha."

We have already signed a cooperation agreement with leading American company ProPetro, which performed more than 10,000 successful hydrofracturings and is ready to cooperate if we win the tender.

We also purchased seismic equipment, which lets us cover large areas and provides high quality seismic information. In this field we cooperate with Dawson Company.

LOGISTICS

Employees of freight auditor ControlPay work in company's Kyiv office on May 26. (Anastasia Vlasova)

High-tech freight audit firm sees Ukraine as ideal place

BY DENYS KRASNIKOV
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In the internet age, companies that can do all of their business online now have unprecedented freedom in choosing the ideal place to locate the physical part of the enterprise – offices, servers, computers and workers.

For Dutchman Pieter Kinds, that place is Ukraine.

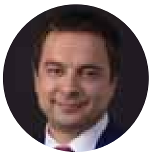
Kinds, 40, first came to Ukraine in 1998 and served as commercial director for the Kyiv Post. Four years later, as the online business boom began, he helped rebrand his father's old-school logistics company into a high-tech online freight auditor called ControlPay. And, taking advantage of Ukraine's skilled yet low-cost workforce, the company located its biggest office in Ukraine.

ControlPay is a service provider in freight auditing – the bureaucratic business of tracking, processing, checking and paying invoices for cargo shipments. It offers its clients an online solution that allows the auditing to be done almost completely electronically, via the internet.

"It's pretty much virtual," Kinds, ControlPay's director, told the Kyiv Post in an interview in April. "It's like IT outsourcing. All you need is a computer and a person who knows how to use it."

The company eliminates paper wherever legally possible, moving documentation online, and automating the freight auditing, registration and payment process. While the computers that do the work and the people that maintain them are phys-

ZAMMLER — the best partner to make your business move



Viktor Shevchenko

CEO, ZAMMLER

Like staying afloat and developing amid recession, entering a new market brings numerous opportunities, but also risks and challenges, especially in an uncertain business environment. Having a great product is a good start, but they way it is brought to the market is just as important.

> In Ukraine, ZAMMLER is the strong leader in road, sea, and air freight for all types of cargo, warehousing, customs clearance and logistics chain optimization, with local expertise, global outreach and an impeccable reputation

The efficiency of transport solutions plays a big part in determining retail price, and, thus the competitiveness of any product. From 10 to 30% of any consumer product cost is transportation, and when we're talking about tons, savings from any minor transport cost reduction can be huge.

Consequently, finding a reliable partner, able to provide a full complex of logistics services, and at the same time ready to bear full responsibility for your goods, is the cornerstone of any successful business.

A company with 100% Ukrainian capital, the ZAMMLER Group started with the founding of ZAMMLER UKRAINE in 2007 and, in within ten years, was in the top five1 companies working in logistics in Ukraine. The company operates 50,000 square meters of warehouse premises and would have already owned up to 80,000 had it not been for the current crisis, the company's CEO Viktor Shevchenko says.

ZAMMLER mainly has international companies with 50-60-year histories in logistics as its competitors in Ukraine, and alone among Ukrainian logistics providers it has already gone global itself.

In 2013 ZAMMLER Group opened an office in China and in 2014 entered the EU market, via Poland. The branches operate under the group name and adhere to the group's unified standards of high quality and latest technologies in customer service.

As of April 2016, the company had six offices in Europe and Asia. According to the HUAWEI warehouse operational management ranking, ZAMMLER SKLAD LLC is among the top 12 leading global companies providing storage services.

> We are a Ukrainian company that provides services for international chains and brands with internationally known names like Bosch, Siemens, Huawei, and Inditex

Value for your business

Our highest value is customer-oriented service: we do our best to meet all the expectations, requirements and individual needs of each and every client.

Our competitive advantage is to offer the ideal match in value for money. We stick to the "golden mean" when balancing quality with price, and offer logistics solutions to fit all price categories. We are constantly looking for ways to make our services cheaper for the consumer and reduce our own costs, as costs are key in logistics.

> High quality, average prices, client orientation and flexibility are our main strengths

Competing with internationals is not easy — global market leaders operate customs terminals at almost every airport in the world, therefore air freight is a harder market to compete in. We are stronger in shipping and especially competitive in customs brokerage in Ukraine, as we know how to work in its uncertain and constantly changing legislative environment.

Brand new service: fulfilment

In 2015 ZAMMLER was the first company to introduce a fulfilment service in Ukraine. Fulfilment stands for the complex of logistics services for e-commerce: storage, online orders management with further order processing, packing and delivering to the end customer.

"We're making history in Ukraine — no one had ever heard of fulfilment here before, so we have to prepare the market for it. First launched by Amazon, this service will only grow — even amid crisis," Shevchenko says.

Resilience, stability and expansion plans

Logistics is the vascular system of any economy and will always be in demand. However, as a B2B company, ZAMMLER depends on the general situation in the market, so a general business slowdown influences us directly. However, we managed to retain clients due to the quality of our services, flexibility and reputation, and stayed in the black even during the peak of the crisis in 2014-2015.

A stable business environment allows companies to relax and go with the flow, Shevchenko believes. Conversely, crisis pushes companies to act, to be creative, to reconsider processes and speed up decision making. One also has to think how to grow and improve quality, while still keeping prices low.

"The first crisis of 2007 taught us a good lesson, and now we fear nothing. For me a crisis is a trigger for development. Perhaps, it was crisis that pushed us up into the top five," says Shevchenko.

ZAMMLER saw two insurance cases in 2015 when a client's cargo was stolen. The company reimbursed the costs to its clients in full at its own expense, despite not having received compensation from its insurer, a case against which is still in court.

This is also an indicator of ZAMMLER's financial stability, as not every company can afford to make such an on-the-spot payment.

As a growth-oriented company, ZAMMLER is planning to enter new markets: At the moment negotiations with potential partners in Kazakhstan are taking place. If these work out, the company will already start moving east by autumn 2016. The devaluation of the local currency in Kazakhstan made business harder for more expensive international logistics companies, while the market is unsaturated and eagerly looking for more cost-efficient solutions, which ZAMMLER is more than ready to offer.

The company also has plans to launch new branch in the United States in 2017.

Secrets of success

Business is done not by companies, but by people, so that is why our staff is among our most valuable assets. We have been carefully assembling our team, bit by bit, over the 10 years of our work, and can now be sure they are the most qualified professionals for the job.

> People for people — this is how our business works

Being consistent in its strategy, ZAMMLER brings Ukrainian management to its new branches abroad and hires the rest of the staff locally. "It appeared very hard to work with people in other countries. In Ukraine they are more professional, apt, flexible and hardworking than in Poland or China," Shevchenko says.

The biggest challenges for the company's efficiency come from the workforce, who need to "use their hands and brains to the max," and finding such people abroad is becoming ever harder.

Shevchenko himself has worked in logistics for years now — rising all the way from middle manager to CEO and business owner, knows the business from the inside. "Fish rot from the head — but that's never going to happen in our company," laughs Shevchenko. "And that's why we keep growing."

Road transportation
International and regional (in Ukraine) motor transportation of complex and consolidated loads.

Container shipping
International standards of container shipping ensured by long-term relations with shipping lines, a well-established agent base, and offices close to Ukrainian base ports.

Air freight
Service package in air freight operations. Our well-established cooperation with many foreign airlines ensures air transportation in good time and at affordable prices.

Customs registration
Full service package in customs registration of export-import freight.

Warehouse logistics
Full service package in storing, convoying and handling of freight. We own 50,000 m² of A-class warehouse premises in Ukraine

Export-import service in China
Our company now provides services in China: cargo transportation, customs registration and warehouse logistics, and a wide range of export and import services.

Complex services fulfilment
We provide all the logistics for online-stores.

ZAMMLER transportation • customs clearance • warehousing
+ 38 (044) 537-56-50
www.zammler.com.ua

ically located in Ukraine, ControlPay's customers can be based anywhere in the world. And the business is growing.

"We've been growing in double digits for the last two years," Kinds told the Kyiv Post, estimating revenue at $2 million a year. "That's healthy growth."

The bulk of his company's employees work in its Kyiv office. ControlPay has 140 workers in Ukraine and plans to add another 60 workers by next year.

ControlPay's customers enter their freight contracts into the company's online repository, along with all the required data to manage their own shipment and trucking, check numbers and sums, and make sure they pay "the absolutely correct amount of money for transportation."

The efficiencies gained from this allows companies to save up to 5 percent on transportation costs, Kinds said.

ControlPay's customer base now includes companies such as Siemens, Bridgestone, Procter & Gamble, Johnson and Jonson, and Schlumberger.

Kinds said his company was more flexible and quality driven than its competitors, and able to provide services that are tailor-made for a particular client.

Companies "don't need to handle this sort of thing anymore – instead, they can focus more on the optimization of their business," Kinds said.

Based largely in Ukraine, with a mainly Ukrainian staff, ControlPay is committed to the nation, Kinds said: As Ukraine suffers almost daily attacks by Russian-backed forces in the eastern Donbas, ControlPay has become an official partner of the United Nations Children's Emergency Fund, or UNICEF, in Ukraine.

"We do feel it's very important to give something back," Kinds said. "We want to be affiliated with international projects. UNICEF has the kind of profile we want to be associated with."

Outsourcing nation

While it has three physical offices – in the Netherlands, the United States and Ukraine – ControlPay works only in the European and U.S. freight markets: the Ukraine office is simply the place from which the outsourcing services are provided.

According to Kinds, the Ukrainian market is still not mature enough to use the services his company provides.

"We really focus on companies that don't just operate domestically," Kinds said.

Instead, his clients are companies that regularly do business with up to 200 suppliers in dozens of countries. With operations as complex as that, it makes sense to outsource them to a company like ControlPay. As of yet, there are no such companies in Ukraine, Kinds said.

Key to success in Ukraine

But foreign companies who decide to set up shop in Ukraine can't just import their own practices wholesale, Kinds warned: local conditions have to be taken into account, and worked with.

For that reason, ControlPay is an example of a "hybrid" company, exploiting a mixture of Dutch and Ukrainian know-how, Kinds said.

"You have to have the will or the knowledge to understand what part of yourself, as a foreigner, you need to leave behind or take with you," he said. "You can't just say 'we're going to westernize the whole thing.' You need to find out how things work here."

Pieter Kinds

Age: 40

Citizenship: Dutch

Position: Global Business Development Director at ControlPay

Family: Married with four children

How to succeed in Ukraine: "You have to have the will or the knowledge to understand what part of yourself, as a foreigner, you need to leave behind or take with you."

Need for logistics education

Kinds is also looking to set up a logistics academy in Ukraine. His experience has taught him that workers in Ukraine have a low-level of knowledge about supply chains, transport and other logistical issues.

"We give logistics courses to our employees," Kinds said. "In general the level of logistic knowledge in Ukraine is gained by experience, not by institutes, universities or courses."

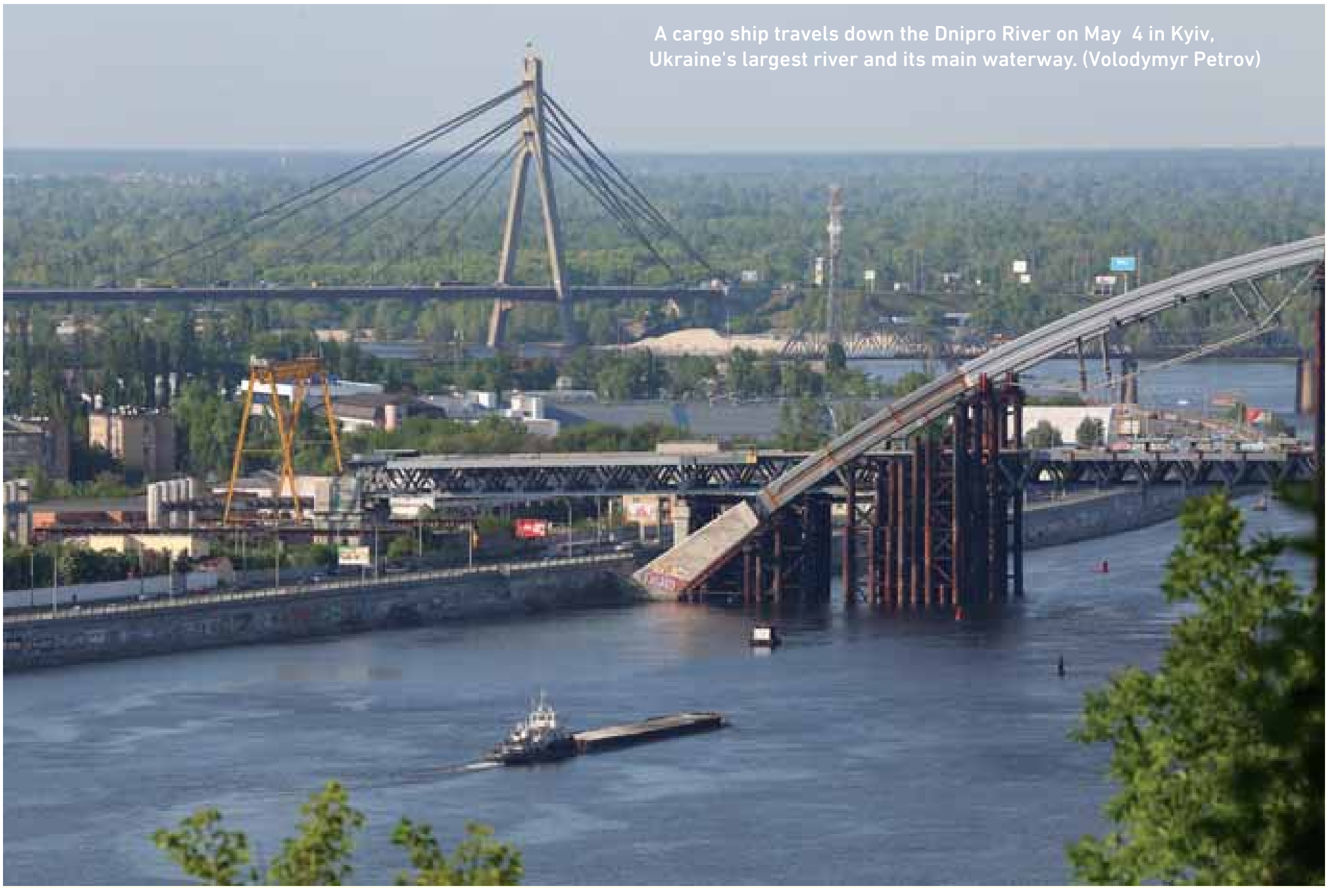
He thinks it makes sense to set up courses for novices in logistics or for those who just want to gain more expertise. Another tendency, according to Kinds, is that people, who apply for a job in logistics after graduating from universities' logistics departments, tend to have very poor level of knowledge.

Therefore, the plan is to offer the paid courses to companies that seek to improve the skills of their employees. There are dozens of examples of good logistics universities in Europe and America, he said.

Ukraine is ready for a breakthrough here.

"Logistics is very important in Ukraine if you want to grow an economy," Kinds said. "If the waterways are clean, tariffs are abolished, ports are reinvigorated, agricultural exports pick up more, and there's better transit in Ukraine, it's going to be more booming. It has a good position for logistics."

The Kyiv Post's IT coverage is sponsored by Beetroot, Ciklum, Steltec Capital, 1World Online and SoftServe. The content is independent of the donors.



A cargo ship travels down the Dnipro River on May 4 in Kyiv, Ukraine's largest river and its main waterway. (Volodymyr Petrov)

River transport revival will be key to Ukraine's logistical future

BY ISOBEL KOSHIW
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River transport could soon be the cheapest way to move cargo around Ukraine.

A new law, which its authors hope will be passed in June, proposes to cut by 70 percent the current $2 per ton fee that companies pay to the state budget for use of waterways. Instead, businesses will pay a single fee for an entire journey, rather than multiple and disparate fees along the way.

The new fee, which will be calculated according to distance and cargo weight or passenger numbers, will go straight to the Administration of Internal Waterways, a state body to be created. In the past, the money went into the state budget, from where it rarely trickleed back into river infrastructure.

Expensive river fees

Compared to road and rail, the country's rivers are underutilized. Research by Baker Tilley in 2013 found rivers held just 2.8 percent of the logistics market – a huge drop from 2005. when rivers took 12.9 percent. According to Deputy Minister of Infrastructure Yuriy Vaskov, high fees are the main reason.

"Due to problems with tariffs, we have fewer than five active companies using the rivers," said Vaskov, who told the Kyiv Post that the new legislation is in line with European Union regulations.

The lion's share of the logistics market is held by roads, which accounted for 73.8 percent in 2013. Rail freight trails, but still holds around 26 percent of the market.

But if current state fees are deducted, transportation by river is far cheaper ($4.50 per ton per 100 kilometers, compared to $11.20 for trucks and $7.80 for rail) and more efficient – the average cargo ship burns one liter of fuel to carry 127 tons one kilometer, while trucks and trains can carry only 50 and 97 tons, respectively. for the same distance and amount of fuel, Baker Tilley research claims.

"Today, inland waterway transport provides the lowest cost of freight per ton of cargo, while having the least impact on the environment," reads the Baker Tilley report.

Vaskov adds: "Trucks at the moment are overloaded, and if they were forced to keep to their real limits, then river transport, even given its current costs, would still be more advantageous for businesses."

Some propose no fees

The Dnipro is the most-used river in Ukraine, with 10 ports and 13 loading terminals, but the Southern Bug and the Danube are also major cargo routes, according to research conducted by Nobles Fortune in 2015. All three lead into the Black Sea.

The biggest utilizer of Ukraine's rivers today by far is Nibulon, a leading grain and oilseeds exporter. In light of Ukraine's poor river infrastructure, the company has built its own fleet of tugs and barges, as well as several elevator complexes and terminals.

The company has repeatedly lobbied not for the single fee proposed under the new law, but the cancellation of all fees. Instead, Nibulon wants an excise tax to be introduced on ship fuel, which would then be reinvested into river infrastructure.

But Oleksiy Gerashchenko, deputy director for the river department at the ministry, told the Kyiv Post that money from an excise tax on fuel would simply be allocated to areas other than river transport.

Another important aspect of the law is the introduction of equal access for ships with foreign owners. Under current legislation, if a foreign ship wants to travel inside Ukraine it has to receive permission from the Ministry of Infrastructure and tax authorities. The process costs "a lot of money," according to Vaskov.

Equal access will be especially important given plans to develop a trade route between the Baltic and Black seas. It is hoped that the water corridor, running from Gdansk in Poland, through Brest in Belarus and down the Dnipro River in Ukraine to the Black Sea, will also improve investment in Ukrainian waterways. Known as the E40, the water corridor is still at the initial stage of planning.

Potential investment

With the removal of arbitrary fees and the granting of equal access to foreign vessels, Gerashchenko says the number of terminals and amount of river infrastructure will also grow.

Vaskov told the Kyiv Post that the country's main waterways are operational, although their infrastructure has deteriorated significantly since independence.

According to information provided by the Infrastructure Ministry, there is a lack of modern river terminals, a shortage of cargo carriers and river channels need to dredged in some areas. Traffic has plunged – there were 29,210 river vessels in 1990, but only 635 by 2013.

On top of the extra money expected from the new financing structure, the law promises possible reimbursements to private investors in strategic infrastructure.

"The law will set the rules of the game. At the moment we don't have a law governing the internal waterways," Gerashchenko said. "No investor will come while this is unclear. The law will change that."

According to Gerashchenko, private investors show interest in the waterways, and some, like Ukraine's top pipe manufacturer Interpipe, are already building their own fleets.

"Our logic is that apart from (maintaining) locks and deepening rivers, everything else will be done by private companies," said Vaskov.

The law is even more relevant, given the government's decision to increase rail cargo tariffs by 15 percent on May 4. According to Concorde Capital analyst Roman Topolyuk, this is aimed at offsetting the fall in revenues to Ukrzaliznytsia, the state railways administration and rail freight monopoly, due to the devaluation of the hryvnia.

10 ports of the Dnipro River

Source: Ukrainian Ministry of Infrastructure

Rivers could to be Ukraine's cheapest cargo transportation option, but Ukrainian lawmakers must work on updating port infrastructure and reducing bureaucracy that fuels corruption.

Kutoviy pledges overhaul of agricultural industry

→18 legal recourse means it would be difficult to control pricing and who gets control of land.

Finding compromise.

His idea is for farmers to have the ability to pledge Ukraine's 49-year land leases. This way, farmers can use leases to gain trust from banks.

"The problem… is that the commercial banks these days, having no claim over leasing rights, only deal with those who can give them pledges of real assets," and they are usually big businesses, Kutoviy said.

In his proposed solution, if farmers default, the banks can re-sign the lease with a new entity. Banks will have access to the land cadastre, which will indicate which land plots have been pledged.

In turn, the state can give out more money, in addition to the Hr 300 million it has already provided, to subsidize interest rates for small farmers.

The process of land valuation will take time and will have to be monitored, but the minister believes this will start a new market in which smaller businesses will have more influence.

To lift the ban entirely will take time, but one thing that could be introduced soon would be the right to sell land from individual to individual, with a cap on the amount of land that can be acquired, Kutoviy said.

Organic farming niche

Once small farmers have more control over land, Kutoviy is confident that organic farming should be their niche.

While organic farming accounts for less than one percent of the market in Ukraine, it stands at 16 percent in many European countries. "For farmers to be successful they need to have a niche, and a big holding will never go organic," Kutoviy said. "I was in Japan recently, and they're ready to pay an extra 50 to 60 percent for organic products."

Poroshenko's man?

But Kutoviy's ambitious plans are overshadowed by worries about his links to Ukrainian President Petro Poroshenko. The president has come under criticism for putting his allies in powerful positions in the new government. Prime Minister Volodymyr Groysman, a business associate of the president, symbolizes the government's loyalty.

Prior to being appointed as minister, Kutoviy was the deputy faction leader of the president's bloc and the head of the parliamentary committee on agriculture. But Kutoviy says that he was never close to Poroshenko, instead winning his seat in a single-mandate electoral district.

Kutoviy says he attracted more than $1 billion in investment to Ukraine when he worked for XXI Century, a real estate investment fund, and he was voted the best financial director in Ukraine by the Adam Smith Institute in 2007.

"(So) am I a technocrat or am I a political guy … what's the difference? If I want to do the job, even if I'm nominated by a political party… what's the problem?"

He said that he went into politics because for the challenge and wants to transformthe agriculture sector.

Mriya connections

One problem is the whiff of impropriety that hangs around his ministry.

A deputy minister, Vladislava Rutytska, has remained in the new government despite previously serving as head of human resources at Mriya, formerly Ukraine's largest and most successful agroholding.

In mid-2014 it was revealed that the company had debts worth hundreds of millions of dollars. The company's former director and co-owner, Mykola Huta, has since disappeared and is wanted by Interpol on suspicion of fraud. Rutytska's background does not seem to be in line with the ministry's new philosophy.

"It was the decision of a previous ministry, it was not my decision. Right now Rutytska is involved in a number of projects," Kutoviy said.

Ukrspyrt corruption

Another problem for Kutoviy is the state-owned ethanol enterprise Ukrspyrt, regarded as one of the most corrupt companies within the Ministry of Agriculture.

In October 2015, its temporary CEO Roman Ivaniuk said that if the enterprise was not sold by the third quarter of 2016 "it will be a lost cause." Yet Ukrspyrt is still on the list of state entities that cannot be privatized and its assets have still not been transferred to the State Property Fund.

Recently Ukrspyrt was supposed to appoint a new CEO, but a court decision banned the nomination procedure, a typical scenario among large state-owned enterprises slated for privatization. This was the fourth failed attempt to appoint a new director out of a list of five nominees.

"This company has to be privatized," Kutoviy said. "Nobody has managed to do this since independence. But I do believe that I'll be able to do this."

Berries at a Kyiv grocery on March 10, 2015. (Ukrafoto)

Ukraine bets on organic food market growth

BY YULIANA ROMANYSHYN
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The best fruit or vegetable is grown in one's own garden. For those who believe that, but don't have a garden, there are organic food producers.

Even though many Ukrainians are finding their finances scarce, the more expensive organic products are rising in popularity.

Following global trends, Ukrainians are willing to pay more for products grown without pesticides, fertilizers and synthetic additives.

But even with constant growth, the organic market in Ukraine is minuscule compared to other countries.

Ukraine's 300 organic food suppliers together take only 1 percent of the country's food market, while in Europe up to 10 percent of all consumed food is organic.

"We are sure that the segment of organic products will grow, and in Ukraine more than anywhere else because we have export potential. And the organic products are a priority in exports," Olena Berezovska, head of the union of certified organic producers Organic Ukraine, said.

While their share is tiny, organic food producers got an endorsement from the Ukrainian government recently. Newly appointed Minister of Agriculture Taras Kutoviy called organic farming one of his ministry's priorities.

"Ukraine has a great potential in this direction because we couldn't apply intensive farming due to our poverty, so the lands are in appropriate condition," Kutovyi said at a press conference in April.

A man holds organic dairy products produced by Ethnoproduct maker in Good Wine store in Kyiv. (Ethnoproduct)

Doing organic business

One of the 300 Ukraine's organic producers is Ukrainian-Swiss agricultural company Ethnoproduct. It farms vegetables and dairy products for the domestic market and exports to the European Union.

Etnoproduct got its organic certificate in 2010, but it took three years to prepare 4,000 hectares of land in Chernihiv Oblast for the organic cultivation.

The farm has been applying humus, green manure, micro-organisms, non-modified crops instead of the more effective yet non-organic synthetic fertilizers, herbicides, pesticides, and, genetically modified seeds.

Now, the land hosts 1,000 cattle. The company produces milk, sour cream, yogurt, meat, sausages, vegetables and other food.

Ethnohouse delivers to 150 grocery stores, mainly in Kyiv, Kharkiv and Lviv.

One of the challenges is organizing a fast delivery: the organic products expire faster than the regular products. Organic milk, for instance, is good only for 72 hours.

After producing and delivering the products, there comes yet another challenge: winning the trust of a consumer. Ethnoproduct's commercial director Andriy Nikolayuk says that Ukrainians are often incredulous about the "organic" label, being unsure that a package of organic milk is worth a few extra hryvnia.

"In Europe, we have the trust (of

Organic standards in Ukraine are often vague. Reforming licensing of goods is a requirement Ukraine's association agreement with the European Union.


YOUR
CHINA

consumers), but not in Ukraine," said Nikolayuk.

Organic vs. mass market

If a conventional producer wanted to try organic farming, he wouldn't be able to do it right away. It takes three to five years to prepare the land for the organic farming after exhaustion caused by regular farming.

Sparing a field for five years means a cut in profits. Few are willing to make the sacrifice.

Berezovska compares traditional intensive cultivation of land with pesticides to a drug addiction because of how hard it is to switch to organic farming.

And even if a producer takes the risk of sparing a field for years, he faces the next challenge: distribution.

While traditional products are sold everywhere in Ukraine, the organic food is mainly distributed in the seven largest cities. The main target groups are mothers who want healthy food for their children and young women who think that organic food can improve their appearance.

Most Ukrainians can't afford paying more for their food. When a bottle of organic milk costs Hr 25 and regular milk is Hr 15, the choice is obvious for them.

No domestic standards

Ukraine has never adopted standards for organic products. Ukrainian farmers use European ones. Certification body Organic Standard is the only agency regulating compliance, putting a green leaf symbol on a package for those who meet the standards. Other similar symbols and signs found on packages are marketing tricks, Berezovska said.

Export potential

Richter Toralf, an expert from Ukrainian-Swiss project Organic Market Development in Ukraine 2012 – 2016, sees opportunities for Ukrainian organic producers in exports.

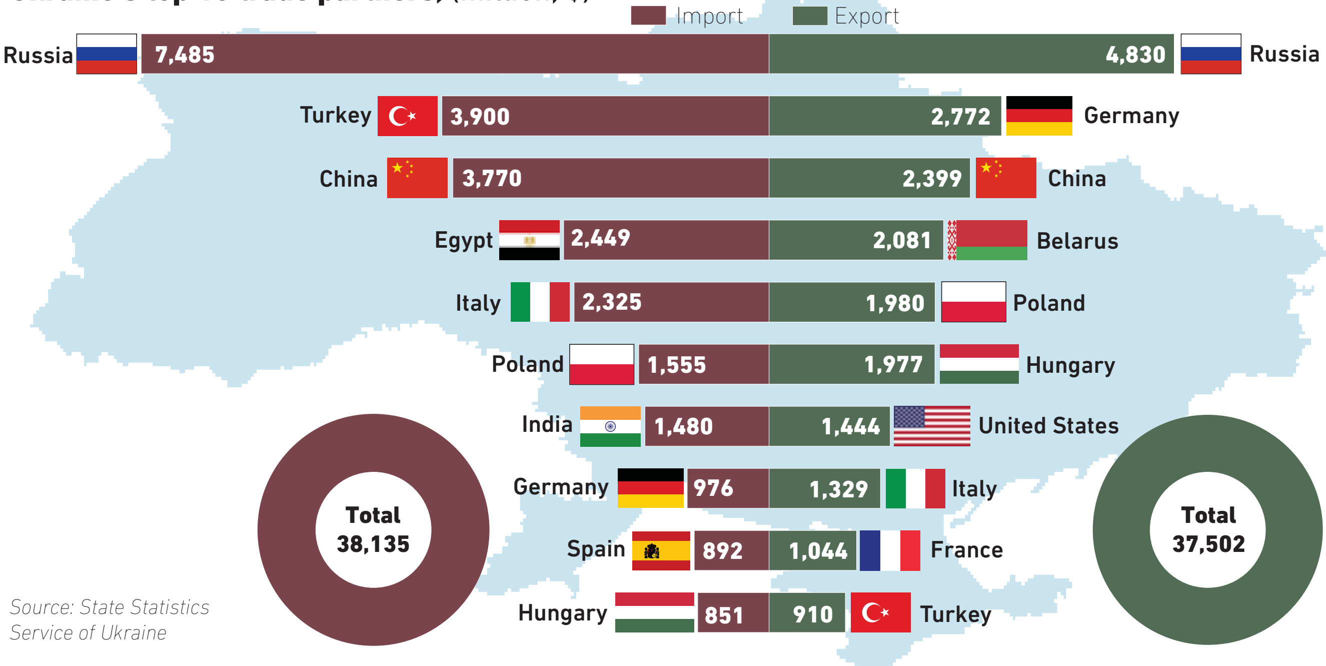
"Ukraine is one of the most popular countries for importers because it provides big volumes in one hand," he said.

So far, organic farmers mostly export raw materials, namely animal feed, crops and berries to Europe. Processed food demands significant investment in production. But Liqberry, a company that makes paste from blueberry, cranberry, and cowberry, is one such processed-food manufacturer.

Ukrainian producers need to promote their image in the West, where buyers have less trust in Ukrainian goods partly because of the low price, Toralf said. But with demand growing faster than local supplies, Ukraine has a chance, Toralf added.

Toralf said that the importers like to build trade relations directly "to see if they are really producing according to the organic standards. They come here, take pictures, check the soil, and then tell their buyers a story behind the product with these photos. This way, trust can grow."

Ukraine's top 10 trade partners, (million, $)



Source: State Statistics Service of Ukraine

Despite Russia's war against Ukraine, Russia is still the country's main trade partner. Turkey, China and Egypt will continue being Ukraine's main agriculture partners in the next couple of years.

Ukrainian clothing manufacturer RITO recently started exports to the European Union. (Kostyantyn Chernichkin)

Ukrainian clothing brands try to catch up with local demand

BY ILYA TIMTCHENKO
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The clothing business in Ukraine is on the rise, but there's still lots of room for growth.

The country's textile industry until recently accounted for less than 1 percent of Ukraine's industrial output. In 2014, the country manufactured Hr 11.5 billion (about $460 million) worth of textile products, according to the State Statistics Service of Ukraine.

That is changing. According to the service's latest data on the textile industry, output rose by 3.3 percent this year from January to March, compared to the same period in 2015. Most of that growth came from the production of textiles (which was up by 29 percent), with the growth in finished clothes more modest, at about 2 percent.

Although the country still produces few of its own clothes, Ukrainians are savvy and trendy garment consumers.

Oleksii Omelianchuk, the CEO of Shopping Mall, an online e-commerce platform that promotes 80 Ukrainian clothing brands, says that when it comes to purchasing clothes via the internet, the fashion segment is the fastest-growing one in Ukraine right now. About 70 percent of purchases are made using cell phones.

The most active clothing consumer group in Ukraine is people aged between 25 and 34, and most buyers are female.

Growing trends

Omelianchuk says that at the grass-roots level, Ukrainian fashion is booming, and that most Ukrainian fashion brands appeared only in the last two years. It's not a coincidence that the boom has happened since Ukrainians ousted their corrupt former government, he thinks.

"It's due to a change in mentality, because after the (EuroMaidan) Revolution in 2013 a lot of people realized that something had shifted in the consciousness of the nation," Omelianchuk said.

Indeed, after the revolution, lots of Ukrainian entrepreneurs jumped into new fields of business, and making clothes was a popular choice. The number of Ukrainian clothing brands is now anywhere between 500 and 600.

But Ukraine's current legislation is not helping these entrepreneurs to develop their new businesses, and the domestic clothing industry is a typical example of how difficult it is for businesses both new and old to carve out and maintain a niche in an economy that is dominated by big business groups.

Tatyana Abramova, the director of Ukrainian knitwear producer RITO, has been in the clothing business in Ukraine for 24 years. Today her company has one knitting factory outside of Kyiv employing 100 people. The company produces at least 25,000 items of clothing per year.

Abramova was considering whether to build a new factory last year, but bureaucratic hassles, uncertainty and worries over the stability of the economy quickly put her off the idea.

"Why should I start doing this – just for the sake of losing sleep at night?" Abramova said. "Today our company doesn't have a problem with finding financing, we're even getting proposals to invest in our business from our own clients."

One of those proposals was to build a factory abroad.

"Our Lithuanian partners have proposed that we start up production in Lithuania, and we're still looking at this question," Abramova said. "Of course a European bridgehead would be very interesting for us as a springboard."

After visiting a clothing fair in Copenhagen, Denmark, RITO recently started to export to the European Union. But most of the demand remains in the domestic market. Her company exports goods worth €6,000, no more than 5 percent of production.

Legislative problems

But the rise in demand and the post-revolutionary boost to entrepreneurship might be short-lived if Ukraine's government doesn't make some key changes soon.

Editor-in-chief of Vogue Ukraine fashion magazine Masha Tsukanova says that while the clothing industry got some good press in the wake of the EuroMaidan Revolution that drove President Viktor Yanukovych from power, it's proving difficult to translate this into more exports.

"A lot of people started to write about Ukraine, Western journalists wanted to support Ukraine by the means available to them, and started to write more about Ukrainian designers," Tsukanova said. "But it's a little difficult for us to export what we make in Ukraine, because the legislation is written in such a way as to be completely against this."

The Ukrainian customs service remains the top problem for clothing companies in Ukraine.

Abramova says that Ukraine is still considered a "zone of risk" by potential investors, who are scared off by Ukraine's corrupt and unpredictable customs service.

Affordable financing and Ukraine's high value-added tax rate are also problems, especially for small- and medium-sized enterprises.

"Everything has a 20 percent value-added tax on it, even on technical equipment, for the creation of jobs and more production," Abramova said. "Right now we're bringing in equipment that costs €45,000, and we have to pay 20 percent VAT."

Exporters are also drained of their earnings from abroad by the regulations of the National Bank of Ukraine. Companies are required to sell 75 percent of their foreign currency earnings as soon as they bring the money into Ukraine.

The temporary currency control was imposed by the government to stabilize the economy following Ukraine's revolution and the 2014 start of Russia's war against Ukraine, but it has been in place for two years now.

Exporters also have to sell all of their goods within a 90-day period.

"This also limits our abilities to export unbelievably," Abramova said. "Especially when we're talking about seasonal collections, when you can't sell everything right away."

Gap in the market

Most of the growth in the industry has so far been at the luxury end of the market. Factories that make goods for Western brands for export are also growing.

"But the middle niche, which is similar to where our company works, basically doesn't exist," Abramova complains.

Tsukanova agrees. There is a big gap in the domestic clothing market because domestic clothes manufacturers need export earnings to fuel their growth on the home market. And for that, they need to be able to export.

"In order to work in the mass market, ideally you need to sell globally as well," Tsukanova said. "Since nothing can be easily exported legally out of Ukraine, then there are problems of how to manufacture for the mass market in Ukraine."

Abramova puts the industry's problems down to the shortsightedness of Ukrainian officials, who she thinks favor commodity exporters, rather than supporting mid-sized manufacturing.

"Light industry is undeservedly being ignored... even though it creates the most turnover," Abramova says.

Ukraine's Business Ombudsman Algirdas Semeta speaks with the Kyiv Post on May 11. (Volodymyr Petrov)

Ukraine's business ombudsman sees his first year as success

BY ILYA TIMTCHENKO
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Ukraine's business ombudsman, Lithuanian-born Algirdas Semeta, is getting results.

He and the body he heads, the Business Ombudsman Council, as of May 1 had launched investigations involving 60 percent of the 799 complaints they received since starting investigations in May 2015. Of these, 341 cases have been resolved; in some cases state officials were dismissed.

"For me the most important thing is implementation, because what I think Ukraine lacks is actual implementation in many areas," Semeta told the Kyiv Post during an interview at his office in Kyiv's Podil district on May 11. "I insist on the thorough implementation of our recommendations, and we don't stop monitoring until we see that the recommendations we make are implemented."

The council has already overseen cases involving a total sum of Hr 3.5 billion ($140 million). This included ensuring that value-added tax refunds are paid out and canceling unjustified fines by tax authorities.

Tipping point

Semeta says there are two key indicators that will show whether Ukraine's business climate is finally tipping from bad to better – tax administration and law enforcement.

"If significant improvements are made in these two areas, we'll be able to say that Ukraine has made significant progress in improving its business climate," Semeta said.

But if no progress is made in these two areas, advances in other areas will cancelled out, he warned. "Even if the National Anti-Corruption Bureau and anti-corruption prosecutor do a perfect job, if a case fails in the courts, it means that nothing is happening," Semeta said.

The Lithuanian has experience. Before becoming ombudsman, Semeta worked as European Commissioner for Taxation and Customs Union, Audit and Anti-Fraud. He was also Lithuania's finance minister from 2008-2009.

"When I was a European commissioner I studied a lot of materials about developments in Ukraine, so I was familiar with what's going on in Ukraine," Semeta said. "What happens in Ukraine will actually have an influence on the future development of Europe, and I think even globally. I think it's extremely important that Ukraine becomes a success story."

While it's too early to say how the story will turn out, Semeta is hopeful.

"I wouldn't be too pessimistic about what's going on in this country – you have to look at the number of reforms and the scope of reforms that have already been implemented," Semeta said. "They really do look impressive – for any standard democratic country it would be a lot."

However, after neglecting corruption and institution-building for 25 years of independence, Ukraine has so much to change.

Quick fixes

One quick fix would be to set up a clear system of internal but independent controls that would effectively monitor the work of tax inspectors and administrators.

"If they do something wrong, this internal structure would step in and impose disciplinary sanctions," Semeta said. The current disciplinary structure is not independent of the tax administration.

Another step would be to cut the number of civil servants in state fiscal services. Ukraine still has more than 35,000 tax inspectors, even after their numbers were cut by a third by former Finance Minister Natalie Jaresko.

"By creating efficient procedures and hiring some new staff they would be able to achieve the same or even better results than they do now," he said.

Criminalization of business

Semeta also aims to level the playing field between business and the authorities. All too often, businesses in Ukraine find themselves under criminal prosecution, facing heavy fines and confiscation of equipment, stopping work.

"What we propose is that the fiscal service should not open a criminal investigation until the administrative appeals process is finished," Semeta said, adding that financial penalties are often disproportionate to the seriousness of violations.

"The criminalization of business is a really serious problem in this country."

The council proposes to include independent experts in the appeals process.

Right to a defense

Semeta also wants the threshold at which a criminal case can be opened to be increased – right now it is only about $29,000.

And businesses that do end up fighting a criminal case should have more ability to defend themselves. For one thing, video recordings of searches of business premises should be admissible as evidence, although there is a lot of resistance to this coming from law enforcement agencies.

"Another simple proposal is not to allow the withdrawal of computers from businesses," Semeta said.

In one case, a medium-sized company was accused of unlawfully dismissing an employee. "During the criminal proceedings, investigators arrested and withdrew all of the company's computers," Semeta said. "But there are much more intelligent ways to satisfy the needs of the law enforcement agencies and at the same time not disrupt the activity of a business."

Another case involved the two or three owners of a small business, a shop, who came into conflict with the local authorities. Officials installed a traffic barrier to block entry to the business.

"This was done completely without justification, and it appeared that local officials were simply acting in the interests of their own businesses," Semeta said.

Helping the little guy

His team is particularly attentive to small businesses, as large ones usually have the means to hire a lawyer and defend themselves. In fact, most complaints come from small and medium businesses: only 20 percent come from large ones.

Most of the complaints regarding abuse of monopoly are connect with oblenergos, or regional power companies.

"Generally speaking, access to electricity is a big issue," Semeta said. "Every region I go to, businesses complain that this is a really huge problem."

Other complaints have involved major state-owned enterprises such as water supply company Kharkiv Vodokonal, railway monopoly Ukrzaliznytsia and Kyiv's Boryspil International Airport.

New relationship

On the plus side, the council has signed a memorandum of cooperation with State Fiscal Services. Since then, more than 70 percent of the ombudsman's recommendations have been followed by the agency.

But problems remain with tax administration. Semeta's team complied a report on flaws and proposed solutions. But only a few recommendations have been implemented.

The Business Ombudsman Council will next lobby Finance Minister Oleksandr Danylyuk. "We will push him hard to really renew work on the tax code, with a particular emphasis on tax administration," Semeta said.

Future plans

The council is funded by Denmark, Finland, Germany, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States. But Semeta hopes that the Ukrainian state and business will become donors as well.

The budget of the Business Ombudsman Council is 1.5 million euros ($1.67 million) per year. So far there are 15 people on Semeta's team, but the plan is to hire seven more. One of the council's big advantages over the state is the ability to pay living wages. Semeta would not say how much his employees are paid, but said that the sums are compatible with Ukrainian private sector salaries.

While the work is demanding, Semeta said he wants to stay on in the job after his first two-year term is up. And he hopes that eventually Ukraine will even be in a position to teach its neighbors a thing or two about how to combat corruption.

A bartender makes a cocktail for a client at Pod Asfaltom Plyazh bar in Kyiv on May 14. (Anastasia Vlasova)

How to open a bar and make money

BY YULIANA ROMANYSHYN
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When Oksana Romanyuk came across a basement in central Kyiv for rent, she thought "this is it - this is where I will open the bar."

It was the right decision. Opening a bar turned out to be profitable for Romanyuk even amid economic turmoil (or, perhaps, because of economic turmoil). In one year, she open a bar called Pod Asfaltom Plyazh (Beach Under The Pavement), made some money on it, and sold it.

"It is a common fact that what people do during a crisis is drink alcohol and have sex," Romanyuk said.

Place

Finding the right location is the starting point. Romanyuk rented the basement of a

building on Yaroslaviv Val Street, and signed a contract that capped annual rent increases to 2 percent. She also inserted a clause stipulating the payment of compensation if the landlord broke the contract. The amount of compensation was to be at least be equal to the start-up capital of the bar.

"It's better to buy, obviously. But all of my friends who run businesses - they rent," she said.

The rent came to Hr 20,000 ($800, at the current exchange rate) per month. But Romanyuk and her husband also had to pay for repairs, including putting in new wiring and toilets. The place was in such bad shape that Romanyuk spent $20,000 on doing the place up, including the kitchen.

Business plan

Romanyuk and her husband developed their business strategy after seeking advice from friends. Initially, they wanted to serve only drinks and no food, but they changed their minds when most of their friends told them they wouldn't come to a place that didn't serve food.

"People like to eat, and they're used to having appetizers," Romanyuk said. They opted for vegetarian snacks such as hummus. The food was sold at a loss – the profits came from drinks sales. But the food on offer also wasn't to many customers' taste: "We lost around 60 percent (on the vegetarian food), as our nation is definitely a meat-loving one," Romanyuk said.

Permits

To open a bar or restaurant one needs to register a company or a private enterprise and obtain permits from the Sanitary and Epidemiological Service and the Fire Inspection.

Romanyuk and her husband registered the bar in their names. One enterprise was launched to operate the kitchen, and another to sell alcohol.

A license to sell alcohol is valid for one year and costs Hr 8,000, although payments can be made quarterly. All alcoholic drinks must be bought from licensed providers.

The sanitary permit proved hard to get. Romanyuk said she and her husband had wanted to do everything above-board when opening the business, but the sanitary and fire inspection requirements were written in such a way that the premises simply could not meet all specifications. For example, the inspectors required three exits, but Romanyuk couldn't break through any walls to make another door to the rented basement, as the walls were all load-bearing.

Profit

Initially, the bar's revenues were only enough to cover staff salaries, and it took Romanyuk and her husband six months to return their start-up capital.

But after that, the bar netted $4,000 per month.

"If you have all of the permits, cool cocktails and a cool place, people will definitely come to you," Romanyuk said. "There's no magic to it."

The good location helped. Pod Asfaltom Plyazh is near a hotel in the diplomatic district of the city center. The clientele turned out to be business people, often foreigners, 45-years-old and older. "They adored us" and were relaxed, Romanyuk said.

How to sell a bar

Romanyuk sold the bar without even having to advertise. But letting the business go was emotionally harder than she had thought it would be. She had come to consider the place to be her home, a place she and her husband had fixed up with their own hands.

If the bar is registered as a private enterprise, that enterprise has to be wound up and another one registered by the new owner under a different name. Re-registration is mandatory when selling a business in Ukraine.

Satisfaction, disappointment

When the bar became profitable, Romanyuk said it seemed as if she was earning money without working. However, no business runs completely smoothly. Her biggest disappointment came when clients started stealing decorative items in the bar, such as the ornamental Buddha statues she had brought in from Asia. To prevent theft, they even had to screw down air fresheners.

Retaining good staff was also a problem. When people quit, it was "like losing a family member," Romanyuk said.

"The most important thing is to imagine your bar when everything has being stolen and broken. Imagine living through that," Romanyuk said. "Now you're ready to open a bar."

Business associations

Business Association	Year founded	Number of members	CEO	Contact info
U.S.-Ukraine Business Council	1995	205	Morgan Williams	www.usubc.org 4-A Baseyna St. Mandarin Plaza, 8th Floor Kyiv 01004 Ukraine Tel: +38 050 358 2681 e-mail: ldudnyk@usubc.org mwilliams@usubc.org
European Business Association	1999	870	Ms. Anna Derevyanko	www.eba.com.ua/ Head Office 1st floor, 1A Andriyivsky Uzviz Kyiv, 04070, Ukraine Tel: +38 044 496 06 01 Fax: +38 044 496 06 02 e-mail: office@eba.com.ua
American Chamber of Commerce	1992	602	Mr. Andy Hunder	www.chamber.ua Horizon Park Business Center 12 Amosova Street, 15 Floor Kyiv, 03680, Ukraine Tel: (380-44) 490-5800 (380-44) 490-5801 Fax e-mail: chamber@chamber.ua
The International Chamber of Commerce	1998	124	Mr. Volodymyr Schelkunov	www.iccua.org 19-B, Reytarska Str. Kyiv 01034 Ukraine Tel: +380 44 234 42 73 Fax: +380 44 270 68 29 e-mail: office@iccua.org
Ukrainian Chamber of Commerce & Industry	1992	10,000+	Mr. Gennadiy Chyzhykov	www.ucci.org.ua 33, vul.Velyka Zhytomyrska, KYIV 01601, Ukraine Tel: +380 44 272-29-11 Fax: +380 44 272-33-53 e-mail: ucci@ucci.org.ua
The Belgian-Ukrainian Chamber of Commerce	2010	50	Ms. Olga BUKAVYN	www.ubcc.eu Driekhoekstraat 27 3945 Ham - BELGIUM Tel: +32 473 850 900 F +32 13 31 48 67 e-mail: info@ubcc.eu
Camera di CommercioItaliana per l'Ucraina("CCIPU")	2006	800	Mr. Maurizio Carnevale	www.ccipu.org Degtiarivska street, 52 04112 Kiev Tel: +38 044 3914118 Fax +38 044 3914118 e-mail: info.ua@ccipu.org
British Ukrainian Chamber of Commerce("BUCC")	1997	300	Mr. Bate C. Toms	www.bucc.com.ua 18/1 Prorizna Street, Suite 7 Kyiv 01034 Ukraine Tel: +38 044 2781000 Fax: +38 044 2786508 e-mail: BUCCUkraine@gmail.com

Business Association	Year founded	Number of members	CEO	Contact info
Canada-Ukraine Chamber of Commerce	1992	106	Mr. Zenon Potichny	www.cucc.ca 6 MUZEYNY LANE KYIV, UKRAINE 01001 Tel: +380 44 495 8551 Fax: +380 44 495 8545 e-mail: ukraine@cucc.ca
Polish-Ukrainian Chamber of Commerce	1992	200	Mr. Jacek Piechota, Mr. Oleksandr Shlapak	www.pol-ukr.com 02002 Kyiv, R. Okipnoi street, 2 Tel: + 380 44 568 42 06 568 44 53; e-mail: kyiv@pol-ukr.com e-mail: info.ukraine@pol-ukr.com
Danish Business Association	2010	60	Mr. Lars Vestbjerg	www.dba-ukraine.com Tel: +380 67 67 46 866 e-mail: lars@vestbjerg.com Gorodnytska 48A 79019 Lviv
French Chamber of Commerce	1994	100+	Mr. Thomas Moreau	www.ccifu.com.ua 10 rue Chapaeva, 2ème entrée, bureau 10, Kiev 01030, Ukraine Tel: +38 044 235 36 64
Business Sweden in Kiev	2013	N/a	Mr. Daniel Larsson, Country Manager Poland, Ukraine and Romania	www.business-sweden.se T:+380 44 496 06 26 e-mail: ukraine@business-sweden.se A:52 Bohdana Khmelnytskoho Str., 01030, Kiev Ukraine
Kyiv – The Netherlands Business Club	2000	40	Mr. Hans Ramaekers	www.bkn.com.ua 01033 Ukraine, Kyiv Nikolsko-Botanicheskaya str., 17/19 office 50 Tel: +38 (044) 221 71 35 +38 (067) 462 76 85 e-mail: info@bkn.com.ua
Norwegian Ukrainian Chamber of Commerce	2008	60	Mr. Arne Mjøs	www.nucc.no P.O. Box 634 Sentrum 0106 Oslo, Norway Tel: +47 408 61 467 e-mail: nordbo@nucc.no
Association "Ukrainian Agribusiness Club"	2007	82	Mr. Alex Lissitsa	www.ucab.ua/en 3 floor, 146 Zhylianska Str. 01032 Kyiv, Ukraine Tel: +380 44 2362097 Fax: +380 44 2362079 e-mail: info@ucab.ua
Association of Ukraine-EU business cooperation assistance (consulting)	2014	N/A	Mr. Yuriy Kogut	03115, Peremogy avenue 121-Б, off. 224 Tel: +38 (044) 220-29-82 Fax:+38 (044) 220-29-78 e-mail: contact@euassistance.org
British Business Club in Ukraine	2002	N/A	Mr. Gerald Bowers	www.bbcu.com.ua 18/1G Prorizna Street, Kiev 01034, Ukraine Tel: +380 67 320 15 84

Business Association	Year founded	Number of members	CEO	Contact info
The Swiss-Ukrainian Business Chamber	2005	Not to be disclosed	Mr. Lieni Füglistaller	www.ukrcham.ch Tel: +41 43 377 5485 Seestrasse 42, 8802 Kilchberg/ e-mail: Zürich info@ukrcham.ch
European Economic Chamber of Trade, Commerce and Industry	2010	50	Mr. Stanislav Grygorskyi	www.eeig.com.ua 14a Dimitrova street, Kyiv, 03150, Ukraine Tel: +38 (044) 200-10-40 e-mail: info@eeig.com.ua
Chinese Commerce Association	2015	17	Weijian Zhou	www.cca.com.ua 33, Velyka Zhytomyrska str. 01025 Kyiv, Ukraine Tel: +38 073 154 07 72 e-mail: info@cca.com.ua
International Turkish Ukrainian Businessmen Association	2004	200+	Burak Pehlivan	www.tuid.org.ua Saksaganskogo Str., 112 a, of. 4, 01032 Kyiv, Ukraine Tel: +38 044 234 30 26 +38 044 235 28 49 e-mail: info@tuid.org.ua
Commercial councils of Embassies				
Trade Department at the Danish Embassy in Kyiv	1992	N/a	Ms. Tetyana Kobchenko Ms. Lesya Logvinenko - Export advisors	www.ukraine.um.dk e-mail: tetkob@um.dk Tel: +38 044 200 12 68 e-mail: leslog@um.dk Tel: +38 044 200 12 65
ADVANTAGE AUSTRIA, Commercial Counsellor 's office of the Austrian embassy	1993	N/a	Dr. Hermann Ortner Commercial Counsellor	www.advantageaustria.org Posolstvo Avstrii - Torhovyi 3-5 Kruglouniversytets'ka St. Office 31, 11. floor 01024 Kyiv, Ukraine Tel: +380 44 220 35 40 Tel: +380 44 220 35 41 e-mail: kiev@advantageaustria.org
Business France, merged UBIFRANCE and the Invest in France Agency	2015	n/a	Mr. Alexis Struve Director	www.businessfrance.fr www.ubifrance.com The Embassy of France in Ukraine Reitarska St, 39, Kyiv, Ukraine Tel: 38 044 590 22 18
Ukrainian business support agencies				
Kyiv Investment Agency	2014		Oleg Mistuque	www.investinkyiv.org Tereshenkivska, 11-A, 01004 Kyiv, Ukraine Tel: +38044289 53 51 e-mail: welcome@investinkyiv.org
Business Ombudsman Council	2015		Algirdas Semeta	www.boi.org.ua Podil Plaza Business Centre 30 Spaska St., 04070 Kyiv, Ukraine Tel: 380(44) 237 74 01 e-mail: info@boi.org.ua


WORLD IN UKRAINE: AUSTRIA
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Inside

Ukraine-Canada forum set for Toronto on June 20

BY BRIAN BONNER
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Ukraine's next big free trade agreement is likely to come soon with Canada, with an agreement signed this summer after a June 20 business conference in Toronto. Canadian Prime Minister Justin Trudeau is expected to visit Ukraine in July.

Negotiations are also under way with Turkey and Israel.

The Canadian agreement will open the North American nation to most Ukrainian goods, promote joint ventures and investment and help Ukrainian producers get access to raw materials. More details are here: http://me.gov.ua/Documents/List?lang=uk-UA&tag=Infografika&pageNumber=3

The biggest step forward this year came with a free-trade agreement that came into effect in January with the European Union. Ukraine has for several years had agreements with fellow Soviet republics.

Altogether, Ukraine has signed 16 free trade agreements covering 45 countries.

Ukraine's President Petro Poroshenko speaks with Canadian Prime Minister Justin Trudeau during their meeting on Nov. 29 in Paris. (UNIAN)

The "Ukraine-Canada: Open For Business" forum takes place at the Toronto Congress Centre on June 20. More information can be found here http://forum.cucc.ca/program.html

One of the participants, Daniel Bilak, managing partner of CMS Cameron McKenna, said the forum will provide "a unique opportunity for Canadian business to understand the impact of reform measures that have been implemented by Ukraine to date. The Ukrainian side will not only evaluate the export opportunities for Ukrainian goods, but Ukrainian government officials will hear first-hand what still remains to be done to improve the business climate to attract serious investment."

Others participants will include: Diane Francis, a senior fellow of the Atlantic Council; Chrystria Freeland, Ukraine's minister of international trade; Aleksandr Danylyuk, Ukraine finance minister; Nataliya Mykolska, Ukraine deputy economy minister: Igor Bilous, head of the State Property Fund of Ukraine; and Francis Malige, regional managing director for the European Bank for Reconstruction and Development; Zenon Poticzny, president of the Canadian-Ukraine Chamber of Commerce; Roman Waschuk, Canada's ambassador to Ukraine; Andriy Shevchenko, Ukraine's ambassador to Canada; Bohdan Kupych, vice president of business development for KM Core; Dmytro Shymkiv, deputy head of the Presidential Administration; Lenna Koszarny, CEO of Horizon Capial; Taras Kutovy, Ukraine's agriculture minister; Paul Grod, president and CEO of Rodan Energy Solutions and Andriy Kobolyev, CEO of Naftogaz Ukraine.


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more taste
lactel
Дольче
Десерт
Оновлений
смак
400г
Вишня
з шоколадом
3,4%