KyivPost

DOING BUSINESS

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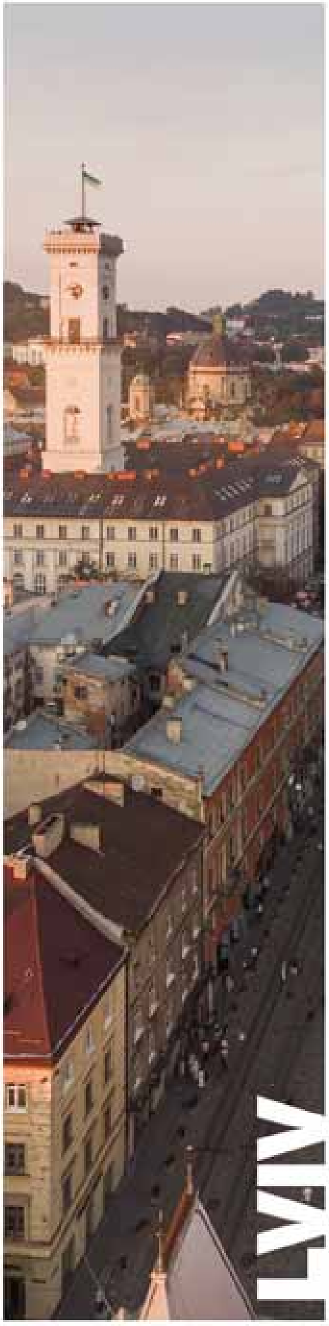

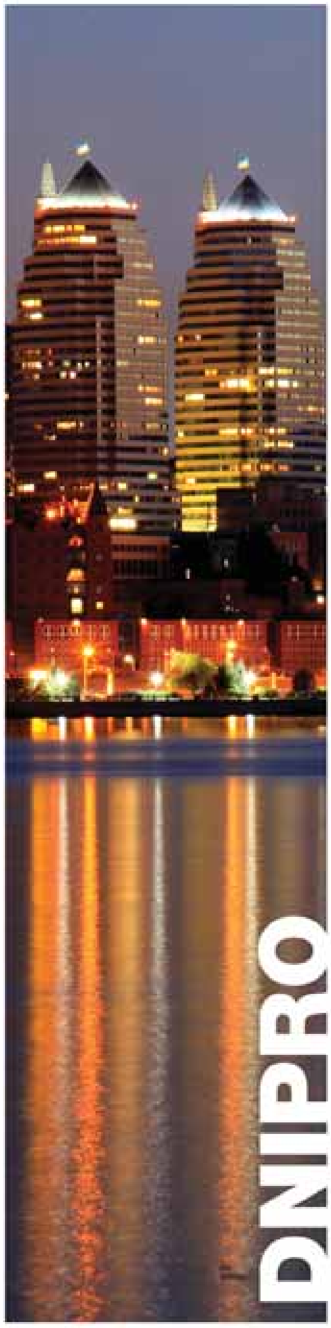

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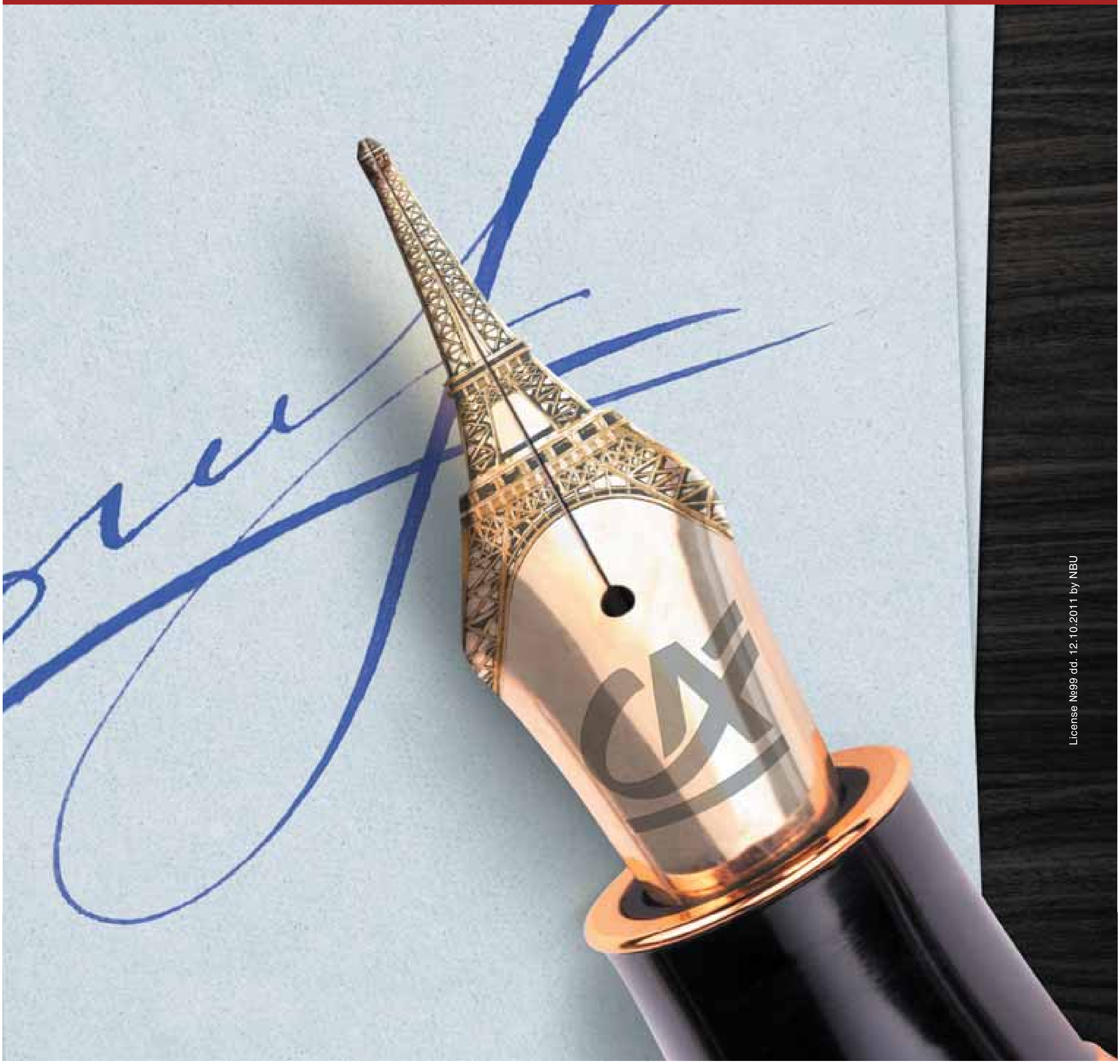

Kyiv Post Doing Business

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For this year's fourth annual Doing Business guide, the Kyiv Post decided to get out of the capital and check the economies of the four major regional centers of Lviv, Odesa, Dnipro and Kharkiv. More than 25 percent of Ukraine's 42 million people live in these four oblasts. These economic hubs also account for nearly 30 percent of Ukraine's $110 billion annual economy.

We found a mixed picture: Big optimism in Lviv, closest to the European Union; untapped potential in Odesa, the southern Black Sea port; municipal leaders determined to rebuild southeastern Dnipro; and a big recovery taking place in eastern Kharkiv.

Overall, the trends reflect what's happening in Ukraine's economy — a return to growth, just not fast enough as vested interests continue to resist the changes to make the economy truly competitive, robust and investor-friendly.

Yet the trend is positive. Ukraine is weaning itself away from dependence on Russia, stifling regulations, a crooked banking system and a shadow economy. Entrepreneurs are expanding and finding new markets, yet overall foreign direct investment remains stuck at about $2 billion in 2017 with prospects not much brighter in 2018.

In this 80-page issue, we have exclusive opinions from the International Monetary Fund's Resident Representative in Ukraine Goesta Ljungman, European Union Ambassador to Ukraine Hugues Mingarelli and journalist, author and entrepreneur Diane Francis. These are three of the most astute observers of Ukraine. They assess strengths as well as challenges that still need to be overcome.

We also take a look at the energy, infrastructure, agriculture, automotive, legal services and banking sectors.

All in all, the biggest hope is that Ukraine's small and medium businesses will flourish to such a degree that they will shrink the power of monopolies, bring more innovations and hold the government responsible for building a stronger Ukraine.

Alyona Nevmerzhytska,
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We are happy to bring you our fourth annual Kyiv Post Doing Business magazine, one of our most successful publications.

Besides the customary look at the major sectors, we decided to expand our coverage into the biggest regional hubs where much of the nation's economic activity takes place. You can expect more nationwide coverage from the Kyiv Post in the future as the newspaper seeks to help Ukraine attract more investment, support investors and work towards greater prosperity for everyone doing business in this great nation.

Our special thanks go to all advertisers, but particularly to our section partners - Corteva Agriscience, Huawei, CITI, VKP, Onur Group and MAN. These advertisers make independent journalism in Ukraine possible. Enjoy this useful and timely guide!

Kyiv Post
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Ukraine's four major regional hubs of Lviv, Odesa, Dnipro and Kharkiv are featured in the fourth annual Kyiv Post Doing Business magazine.

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NEGOTIATING SPA UNDER THE NEW PRIVATIZATION LAW

Andrii Moskalyk,
Senior Associate
Baker McKenzie

Oleksandr Kez,
Associate
Baker McKenzie

On 10 May 2018, the Cabinet of Ministers of Ukraine officially declared which large privatization assets would be put on sale in 2018. Those included are companies such as Turboatom and Odesa Portside Plant, as well as Centrenergo. While the latter is going to be sold under the 'old' privatization rules, the first two are supposed to be privatized using the new tools prescribed by the new Law of Ukraine ***On Privatization of State and Municipal Property,*** effective 7 March 2018 (the "Law"). Although there are a number of changes embedded in the Law that are worth mentioning, one of the central questions for the strategic buyers would be the ability to have a deal that is consistent with best international practices.

Negative covenants. The first important instrument, which is widely used in typical M&A transactions, is the undertaking of the seller not to do anything that would reduce the value of the asset after the deal is sealed. The Law provides that, from signing of the agreement until closing of the privatization deal, no amendments to the effective contracts or conclusion of the new ones shall be allowed without the prior joint consent of the privatization authority and the buyer. Further, the Law requires the same approvals to be obtained before any changes are introduced to the issued capital of the target company, or prior to a decision on liquidation of the target company by means of its merger, transformation or split-off. Such restrictions apply by operation of the Law and need not be included in the privatization agreement. Any transaction made in contravention of this requirement will be deemed as void.

The seller and the buyer may also incorporate certain liability provisions into the privatization purchase agreement, e.g., relating to violation of the aforementioned restrictions, on top of the nullity of those transactions.

Scope of Warranties. The next key novelty for the buyers to consider is that the scope of warranties allowed under Ukrainian law has now been extended. Previously, the applicable law allowed the seller to give only those warranties that relate to the privatized assets, e.g., to the shares of the target company but not to the business of the target company itself. From now on, the warranties may cover both the shares and the business of the target company whose shares are being sold. The warranties may also be given in relation to the effective or potential encumbrances placed over the shares or the assets of the target company. And, of course, the agreement may also contain liability in respect of accuracy of such information, which presumably would be the most debatable issue in the course of negotiations of the sale and purchase agreement with the State Property Fund.

The termination of a privatization agreement based on a breach of warranties is not allowed by the law. Thus, the only available remedy left is the monetary liability for breach of warranties, which would need to be incorporated into the privatization agreement.

English Law. Another 'hot' topic for discussion among local and international experts is the applicability of foreign law. From now on, the Law expressly permits a privatization agreement to be governed by the laws of England and Wales, at the buyer's request. It has been widely supported on the assumption that, by applying English law to the privatization agreement, the entire deal would be governed in accordance with English law concepts. Taking a closer look at the wording of the respective clauses of the Law, they allow the privatization agreement to be governed by English law only to the extent that it is not governed by the mandatory provisions of Ukrainian law. In other words, the privatization-specific restrictions and requirements, e.g., change of control provisions or further liability of the new owner of the privatization asset embedded in the Law, cannot be overridden or modified by virtue of the application of English law. Further, although the provisions on representations, warranties and indemnities of the parties may be governed by the laws of England and Wales, there might be instances where Ukrainian law establishes specific consequences for their breach, which may not be contracted out. For instance, the buyer may not be able to terminate the deal should the seller breach its representations under the privatization deal.

It is true that, with these changes in regulation, there will likely be a number of privatization agreements incorporating sections on indemnities of the seller, conduct of claims and many other clauses very commonly used in typical M&A transactions. However, a thoughtful approach should be taken while bidding for the asset to avoid any conflict with the mandatory provisions of Ukrainian law. The new Law leaves much to be decided on at the negotiation stage of the privatization process, especially now, when English law is expressly permitted. At the same time, that does not necessarily guarantee that the State Property Fund, obviously having by virtue of the Law more leverage over the deal structure, would be in agreement with the English law concepts proposed by buyers. It is therefore up to the parties to strike a balance in the privatization agreement and find comfort where English law concepts would co-exist with the mandatory provisions of Ukrainian law.

The newly introduced tools and mechanisms have not yet been tested, and buyers should be well prepared to utilize them to the maximum extent; given a number of bylaws implementing the provisions of the Law waiting to become effective, the State, in turn, is 'ready to roll' with its privatization plans for this year.

Baker McKenzie.

Pivnichniy Mist (Northern Bridge), the northernmost of the five bridges that cross the Dnipro River in Kyiv. (UNIAN)

Hugues Mingarelli: How do you conduct business in Ukraine?

HUGUES MINGARELLI

In his masterpiece "Le père Goriot," the French writer Honoré de Balzac (1799-1850), perhaps influenced by the few years he spent in this country, was explaining how the fortune of his main character, a grain trader, stemmed from his ability to understand how to conduct business in Ukraine.

This was more than 150 years ago, so needless to say that the issue of doing business in Ukraine is not a new one!

Today a real game-changer for improving

the business climate is the ambitious European Union-Ukraine Association Agreement.

From the harmonization of technical regulations – moving away from old burdensome Soviet standards to simpler and more internationally recognised ones – to the reform of the public administration and of the judicial system, the EU works hand in hand with Ukrainians to help make this country more business friendly. The first-year anniversary of visa-free travel to the Schengen area – covering 30 European states – is also a step in that direction, removing constraints to the movement of business people, and allowing them to find partners and niche markets.

Do we see results?

Certainly not as fast as one would expect, but trade statistics show that Ukraine is becoming more integrated in EU markets. Exports from Ukraine to the EU now represent more than 45 percent of total Ukrainian exports and have returned to 2014 pre-crisis levels. An expansion in exports of this magnitude has not been achieved with any of Ukraine's other trading partners globally. Every week brings example of EU companies investing in Ukraine or a Ukrainian manufacturer or start-up opening doors to the EU market. And this finally starts to be visible in the Foreign Direct Investments statistics.

Yet, while acknowledging such positive trends we should certainly avoid complacency. In that sense I would like to stress two messages.

First, we, foreigners, are often perceived as too critical, not giving enough credit to the reforms carried out by the government and parliament.

But there is a simple reason for that. Ukraine is a European country endowed with great assets, from fertile lands to a skilled workforce, from geography to industrial heritage. This may also be a curse, because it means that in the eyes of observers, Ukraine is a subject of perpetual frustration, as we tend to look at it not as it is, but as it should and could be, namely a modern and prosperous European country.

We can never repeat this enough: there is no objective reason why Ukraine cannot be an economic powerhouse in the region and beyond. It should not be satisfied with 2-3 percent growth of the gross domestic product while its GDP is still only two-thirds of what it was when the country regained its independence more than 25 year ago. Ukraine is climbing up the World Bank Doing Business index ranking, but so far - doing it rather slowly when compared to its neighbors like Turkey, Belarus, Georgia or Romania.

Second, the business climate is one thing, but its perception by foreign investors is another. And perceptions, even if subjective, really matter and influence business decisions.

Image and branding is critical for any country and even more for Ukraine, which is fighting external aggression and faces threats like information war, fake news and disinformation campaigns, all aimed at deterring foreign investment and eroding trust in the government.

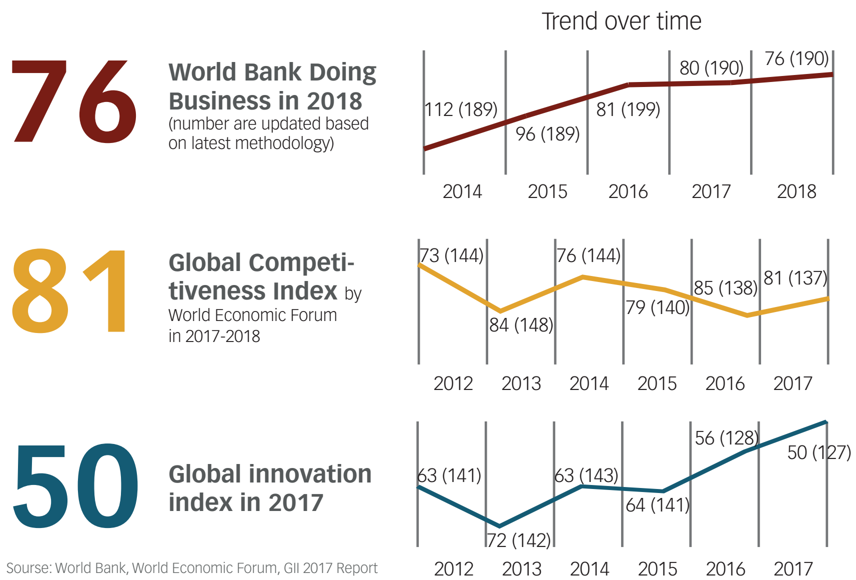
We all have anecdotes of colleagues, family and friends concerned about the security situation in Kyiv and the rest of the country. Unfortunately this is translating into real damage for the country via lost investments opportunities, and also scaring off people from visiting beautiful summertime destinations across Ukraine.

The EU helps address this challenge through the East StratCom Task Force, a team that targets the spread of false information with the aim of discrediting Ukraine on the international scene. We also launched the "Moving Forward Together" campaign in Ukraine, to explain the benefits of closer EU – Ukraine economic association with the help of success stories, including from entrepreneurs. The Ukrainian authorities are also active, and even though the task is endless, it will remain a top priority.

In this sense, the Doing Business in Ukraine issue of the Kyiv Post was and remains a great source of inspiration for Ukrainian and foreign companies alike, offering a much needed analytical snapshot of the situation on the ground. Enjoy reading!

Hugues Mingarelli is the European Union Ambassador to Ukraine.

How attractive is Ukraine's business climate?



Ukraine ranks about 32nd in population among nations, with 42 million people, but usually ends up far lower in three key international rankings that measure ease of doing business, competitiveness and innovation.

Residents of Kharkiv, the eastern city of 1.4 million people located 478 kilometers east of Kyiv, cross the city's central Sumska Street. After weathering Russian-backed unrest in 2014, the city is now calm, bustling, open for business — and solidly pro-Ukrainian. (Volodymyr Petrov)

Kharkiv taking steps to become business and tech powerhouse

BY MATTHEW KUPFER
KUPFER@KYIVPOST.COM

KHARKIV, Ukraine — In 2014, the situation in Ukraine's east was more than tense.

Following the EuroMaidan Revolution that drove Kremlin-backed President Viktor Yanukovych from power on Feb. 22, 2014, Russia retaliated by instigating protests in many parts of Ukraine after invading the Crimean peninsula.

In Kharkiv, Ukraine's second largest city with 1.4 million people about 480 kilometers east of Kyiv, protesters — many likely bused in from across the Russian border — occupied the regional state administration building and, on April 8, "declared independence" from Ukraine.

For Kharkiv's growing IT industry, the

tension meant danger. Men in black masks appeared at IT companies to demand access to data and servers. Some were clearly members of the Security Service of Ukraine carrying out investigations. But, in many cases, it was unclear who was behind the black masks.

"At that point, it was very important for companies to form a coalition to protect themselves from (these) data and server issues and help IT businesses remain strong," says IT professional Sofia Belenkova.

Later that year, the Kharkiv IT Cluster was born. It started as an organization to provide legal support to companies facing data requests, says Belenkova, who now serves as its executive director. Next, it took to lobbying embassies to restore Kharkiv's good name after the unrest.

Four years later, Kharkiv is a different city — peaceful, bustling, and firmly Ukrainian. And the IT Cluster has become one of many organizations and companies working to drive the city forward. In technology, industry, agriculture, and manufacture, these companies are building a different reputation for Kharkiv: that of a business hotspot.

City of industry and education

The modern city of Kharkiv grew from a military fortress built in the 1650s. However, it soon reoriented itself toward something that would more powerfully define its future: education.

In 1804, local educational reformer Vasyl Karazin founded Kharkiv University (today Karazin National University of Kharkiv). The university, from its start, was internationally-oriented; it taught in the languages of Europe, hired instructors from abroad, and often introduced students to Western ideas.

That strong educational foundation came in handy. During the 19th century, Kharkiv grew into an industrial powerhouse. Supplied with raw materials from Ukraine's Donbas region, the city rapidly developed its engineering, metalwork, transportation, light industry, and agricultural sectors. Its population exploded.

Throughout the Soviet period, Kharkiv continued to be a center of industry, producing everything from tanks and planes to tractors and motors. It was among the top industrial and technological cities, and regarded by many as the Soviet Union's third city after Moscow and Leningrad (today's St. Petersburg).

The collapse of the Soviet Union in 1991 delivered a major blow to the local economy, rendering the previous models of industrial production largely obsolete. But industry chugs on in Kharkiv.

Tractor factor

One such historical enterprise adapting to new economic realities is the Kharkiv Tractor Plant. Founded in 1930, the factory produced 50,000 tractors a year at its peak. Its machines could be found working fields across the Soviet Union and in dozens of countries around the globe.

Since its privatization in 1995, however, things have changed.

Now, the plant produces a maximum of 2,000 tractors annually, and its director, Andriy Koval, is working to develop the factory in accordance with market conditions, not the Soviet five-year plan.

If the Kharkiv Tractor Plant was highly modern in the 1930s, today it has fallen behind major international brands like John Deere and Claas. Much of its equipment still dates back to the mid-Soviet period. And while the Ukrainian market wants tractors boasting 300 to 500 horsepower, the plant only produces tractors of 180–250 horsepower.

As a result, the Kharkiv plant now fills a specific niche. Its primary clients are agricultural producers with between 400 and 2,000 hectares of land. And beyond its traditional post-Soviet market, it sells to the developing world: South America, Africa, and even China.

It has also eschewed most of the expensive electronics common in many tractors today. Koval compares his plant's tractor to a Land Rover Defender.

"It's a simple, understandable machine from the point of view of usage and repair," he says. "Compared to the most expensive import, our tractor will cover 80 percent of the functional tasks, and we provide it to the client at a price that is three times lower."

The plant is also working to make improvements. Among its current projects are a new transmission, cabin, electronic control system, and hydrosystems for its tractors.

Overall, Koval says the plant is trying to combat the image of the old Soviet tractor and incorporate user feedback into its product.

"I beat this into the head of every employee," he says. "Any changes should bring benefit to the client."

New frontiers

If industrial output was Kharkiv's old calling card, IT may easily be its new one. The city currently boasts over 500 IT companies, according to the IT Cluster's Belenkova.

And much like the Kharkiv Tractor Plant, Ukrainian IT is finding its own niche in the global market.

Take NIX Solutions, Kharkiv's largest IT firm and a local success story. Founded in 1994 by three student friends, NIX initially helped companies and organizations get online, install antivirus programs, and set up accounting software.

With time, however, the requests got more complicated, and the company began developing custom software. Its client base also expanded "organically," with old clients bringing new ones, says Alexei Nikolaev, senior vice-president for corporate clients.

"We went from developing software to an entire spectrum of services: quality control, servicing servers, support, bug fixing, everything we could," he says. "And, since then, we've just added new technical platforms."

Today, NIX has 1,500 employees in a hip, relaxed office that would not be out of place in Silicon Valley. But its specialization is distinctly Ukrainian: outsourcing.

This approach is as effective as it is straightforward. Many of NIX Solutions' clients are based on the East Coast of the United States. Often they have their own IT specialists, but need to find a large quantity of highly qualified specialists to develop their product or service.

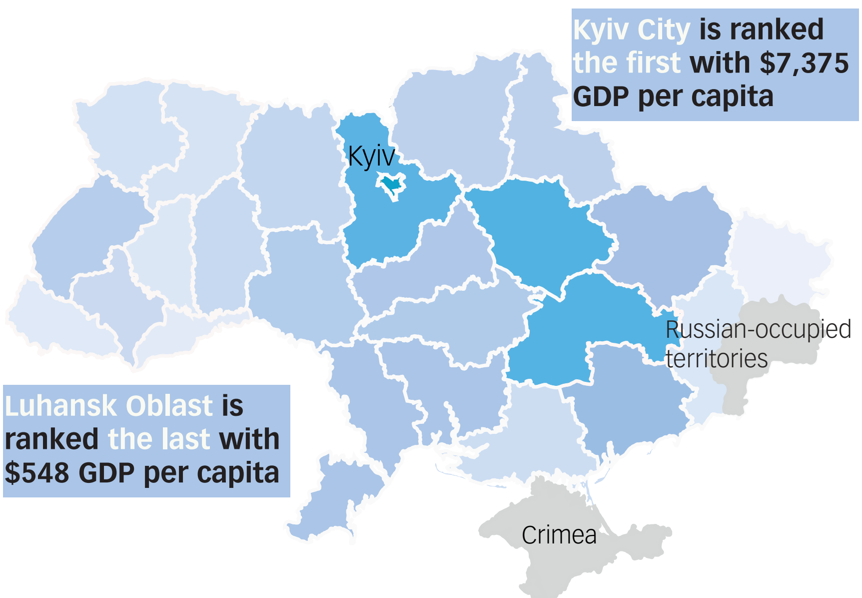
That would be extremely expensive and difficult in the U.S., so the clients turn to NIX. Not only do its specialists have the required skills, but the company itself boasts significant experience organizing large projects and integrating its employees into the client's team. Often, this can happen without even a single in-person meeting.

"We're the classic 'guys to go to' for these companies," says Nikolaev. "They come to us with their product vision and we help them get a team and develop the project in accordance with their demands and needs."

That Kharkiv should be an IT and outsourcing hotspot is hardly surprising. The city hosts five technical universities, five IT technical colleges and an array of other tech-focused education programs. And local IT companies can offer work at a lower price than ones in the West.

The outsourcing arrangement is also

GDP per capita in Ukraine's regions in 2016



Ukraine's gross domestic product per capita was $2,150 in 2016. Its most profitable region was the city of Kyiv, while Luhansk Oblast ranked last, according to the latest available data.

Source: State Statistics Service

Alexei Nikolaev, senior vice president for corporate clients at the information technology firm NIX Solutions, shows off athletic trophies that his employees have won in competitions with employees of other IT firms. (Volodymyr Petrov)

beneficial to the Ukrainian IT companies.

"Services that big companies in Europe talk about are (actually) outsourced to Kharkiv," Belenkova says. "From our side, having a foreign partner increases trust and we can attract more complicated and bigger projects."

Nestlé's investment

But not all business in Kharkiv is local. Even multinationals are finding investment projects in the city.

The best example of this marriage of Ukrainian and international is Nestlé. In April 2018, the Switzerland-based food and beverage company announced that it would invest Hr 700 million ($26.8 million) into modernizing the Kharkiv factory where it produces Mivina, a popular Ukrainian instant noodle brand.

Launched in 1994 by Vietnamese businessman Pham Nhat Vuong, Mivina became a runaway hit that helped make its creator the wealthiest man in his home country. The inexpensive, tasty instant noodles have taken on an almost iconic status in Ukraine.

In 2010, Nestlé purchased the Mivina label. Its latest investment in the brand will allow the company to increase the quality of the product, decrease the amount of oil used to produce the noodles, increase the brand's competitiveness, and improve working conditions at the factory, according to Ansgar Bornemann, market head for Ukraine and Moldova.

In the next two or three years, the company is also planning to launch "innovations" — and not "just another flavor, but using different raw materials and coming up with different kinds of products," Bornemann says.

But until they launch, those new products will remain a secret, he says.

Challenges

For all the advantages that Kharkiv offers to entrepreneurs, corporations, and employees, there are still many challenges, say businesses — among them educational shortfalls, entrenched corruption and a broad unawareness among officials about how best to support the IT industry.

Despite the city's strong educational institutions, the IT specialists who emerge from Kharkiv universities and colleges often aren't fully prepared for work in the companies that are hiring.

"Currently, the demands of the IT companies and the qualifications of the graduates, as a rule, don't match," says Serhiy Skrynnyk, director of the A-Level private IT school. He believes the city needs more mechanisms to help educational institutions cooperate with the industry itself.

Meanwhile, while both the city and the

Kharkiv regional authorities are enthusiastic about IT and the potential for innovation, how the government will support Kharkiv's IT sector remains unclear.

Belenkova suspects that "they do not yet understand how they can support (IT) on the legislative side."

Kharkiv Mayor Hennady Kernes emphasizes that the city is working to create transparent conditions for business and investment projects. But Kernes himself has a questionable commitment to transparency; his reputation includes reported ties to the criminal underworld, corruption accusations, and an ongoing criminal case about the kidnapping of two EuroMaidan activists in 2014.

"It's a fabricated case, that has no prospects and no proof," Kernes told the Kyiv Post, referring to the criminal charges against him.

He accused his political nemesis, Interior Minister Arsen Avakov, and his advisor Anton Herashchenko of the alleged fabrication.

According to the mayor, Kharkiv has opened an administrative center to handle business registration documents and exclude a large number of bureaucrats and, hopefully, corruption from the process.

"We are creating the maximum conditions for IT technology, so that business can always know about this or that company with which it wants to enter into relations," Kernes said.

"If business thrives, if the entrepreneur thrives, the city will thrive," he added.

However, Kernes did not express any clear plans for supporting IT, tacitly confirming Belenkova's claim.

Regional governor Yulia Svitlychna could not be reached for comment by press time.

There are also other challenges. The Kharkiv Tractor Factory did not operate for around 10 months in 2016–2017 due to a complicated legal case over supposed outstanding debts and, likely, related to its former owner's connections to Russian oligarch Oleg Deripaska. Although it is again up and running, the scandal was a blow to both workers and the factory, and demonstrated how politics can still interfere in business in Ukraine.

Finally, Kharkiv faces another common Ukrainian economic struggle: brain drain.

Employee turnover

Thomas Ringger, Nestlé's technical director for Ukraine and Moldova, has worked for the company in Switzerland, Germany, the Czech Republic, and Russia. But he has never before seen the level of employee turnover common in Ukraine. In any given year, the company can lose 20 to 30 percent of its employees. In some cases, the employees are leaving to go work abroad.

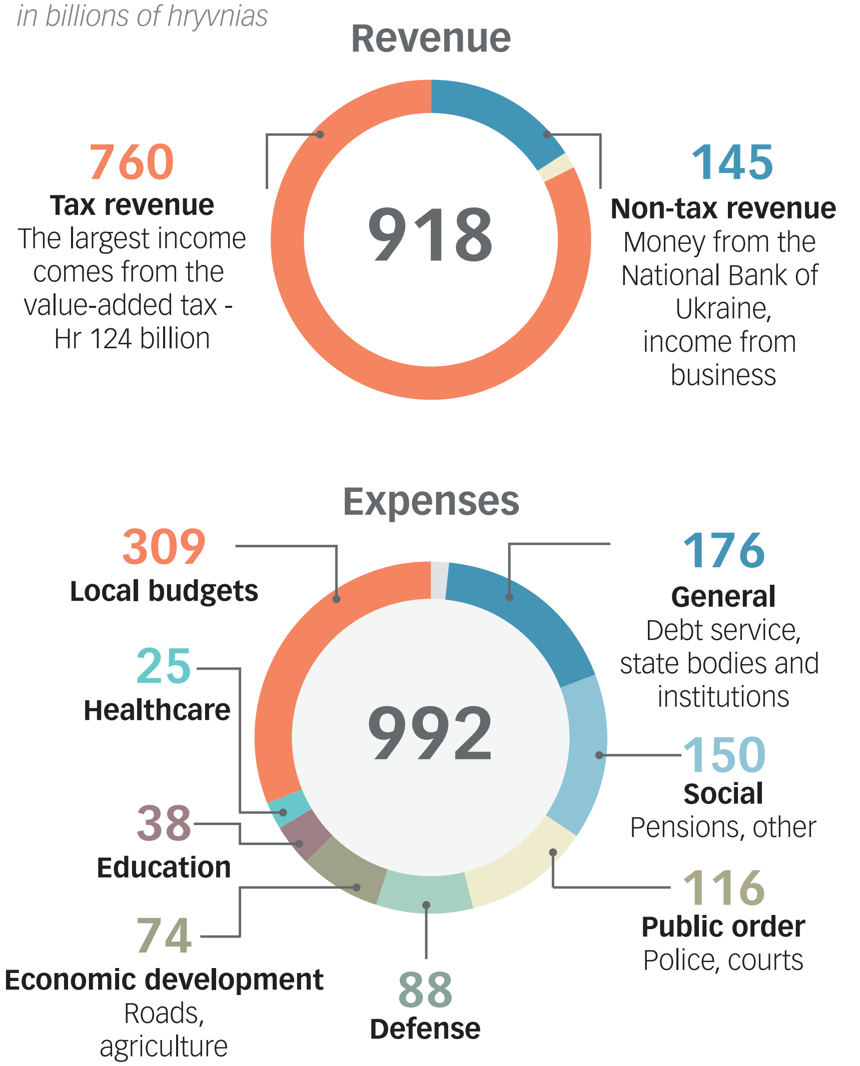
"(Turnover) is really a challenge that is extraordinary to Ukraine," Ringger says.

But Ukraine is not without its advantages, and Ringger says his professional experience with Ukrainians has been extremely positive.

"What's great in Ukraine is you can motivate people, you can relatively quickly align people behind a joint goal," he says. "And then normally people work extremely hard to reach these targets."

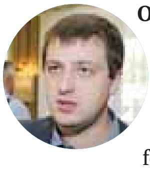
Ukraine's 2018 budget plan

in billions of hryvnias



Ukraine's 2018 budget plan envisions spending of $37.8 billion and revenues of $35 billion, for a deficit of less than 2.5 percent of gross domestic product. But the International Monetary Fund says the deficit is closer to 4 percent of GDP.

Vox Populi with Matthew Kupfer: What needs to happen for the IT industry to continue growing in Kharkiv? Is local government doing enough?

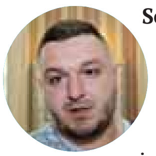


Oleksandr Podolsky, director of InSoft Ukraine

"IT in Kharkiv is developing very quickly. In the last few years we've had a bit of a leap forward because we have gained some more personnel. As a result of the events in the east, people came here from Donetsk and Luhansk. Some of them started working in Kharkiv. This gave us certain opportunities for growth. For now, it's very nice that (the local authorities)aren't doing anything to get in our way."

Oleg Mashkov, director of Verna

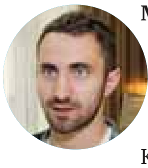
"Many companies are suffering from a hunger for staff. There are not enough people trained for (this) work: developers and project managers. It's one of the big problems. Of course, we are hoping that there will be some changes in the educational sphere. And (some of) these changes are already happening, and more and more schools that train specialists are appearing. But we still need some support from the state for development. In many countries, the government implements programs for developing IT...which allows for the creation of innovation clusters, with a special regime of (state) support and taxes, and the state recognizes IT as a very important development that helps the country. So far, there's nothing like that in Ukraine, but we hope that these changes will come."



Serhiy Skrynnyk, director of the A-Level private IT school

"Interest in the industry is getting greater and greater...To improve the IT sector in both Kharkiv and Ukraine, we need to establish a cooperation mechanism between educational institutions — both private and state — and IT companies."

Executive director Sofia Belenkova (center) leads a discussion at a breakfast meeting of information technology professionals organized by the Kharkiv IT Cluster. Founded in 2014 to protect the industry during Russian-backed unrest, the organization now works to promote tech, support IT education and build the local economy. (Volodymyr Petrov)



Max Samko, director of Art Lemon digital agency

"It seems to me that Kharkiv does not have enough investment in IT locations, in developing offices... The market has a huge number of people, but in terms of how they should work, where they should work, how they can improve their lives so that they stay in the city, that's the open question...Coworking spaces, maybe some conferences, visits by major well-known entrepreneurs to teach by their example, maybe some workshops — because they carry out a lot of events in Kyiv, but much less reaches Kharkiv. And, in terms of investing in technology, it would be good for some major product-oriented companies to come here."

Gennady Bukshevalov, director of SoftServe's Kharkiv branch

"The educational system should change in tune with the world around it. Yes, it has a good base, a good foundation, but it should follow what is happening on the market, in business, and answer this call. One of the IT Cluster's tasks is to help universities transform and prepare more specialists and raise their quality. More specifically, their skill set should match the demands of companies today. In the Ukrainian reality, it's very good when the government doesn't get involved. That's already support."

Sofia Belenkova, executive director of the Kharkiv IT Cluster

"I think what's needed is better support or openness in terms of education. We do have wonderful cooperation samples between students, universities, and businesses, but we need much more and we need them customized within in each stack, industrial focus, even markets and languages... and (we need more) ease of doing business, which includes infrastructure opportunities and some specific government program support, even (for) tourism. That would be nice as well because it would help us attract more wonderful, experienced, and mature IT experts from abroad. We are currently working with the Ministries of Economy and International Affairs on the export strategy for IT."

A photo of fields taken by a drone in Kyiv Oblast. Ukrainian startup Agrieye uses such drones to amass various data. It creates a precise map, describing the chemical composition of the soil and its vegetation state. Then the company's artificial intelligence analyzes the land and predicts crop yields, giving recommendations on how to irrigate and fertilize. (Ukrafoto)

How technology is changing Ukrainian agriculture for better

BY DENYS KRASNIKOV
KRASNIKOV@KYIVPOST.COM

Vast stretches of flat land. Rich, black soil. A temperate climate.

Ukraine is a country ideal for agriculture, where many of the world's staple crops flourish. But, starved of investment since Soviet times, Ukraine's farmers still see far lower yields per hectare than their European neighbors.

While the sector now accounts for over 30 percent of Ukraine's exports and 12 percent of its gross domestic product of $100 billion annually, much of Ukraine's agricultural potential has gone untapped.

One way to change this is agritech — bringing advanced information technology to the field. With keen sensors, cheap drones and advances in data management, agritech can vastly increase Ukraine's potential, say proponents. A crop of Ukrainian startups is demonstrating how.

Precision farming

Studies by the World Bank show that Ukraine loses about 50,000 hectares of farmland every year from soil erosion and land degradation alone — a loss which costs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Ukraine an estimated $10 billion a year.

Techie Andrey Sevryukov claims he could prevent 50 percent of that loss through implementing hi-tech, internet-based land management systems. He's set up a company to start doing just that.

Agrieye, his company, compiles data using drones, multispectral remote sensing, and vast open data sets from NASA satellites.

With this data, it creates a precise map of a field, describing the chemical composition of the soil — nitrates, phosphorus, and potassium levels — and its vegetation state. Then, its artificial intelligence analyzes the land and predicts crop yields, giving recommendations on how to irrigate and fertilize crop lands.

Such an approach is called "precision farming." It helps farmers get the most out of the land available: they can budget for expenses, work their land properly, and, with reliable predictions for crop yields, even sell their harvest several months in advance.

Agrieye now works with small- and mid-sized farms in Latin America, the United States, Malaysia and Ukraine. Sevryukov says Ukraine has "one of the most developed agritech sectors in the world, on a par with that of Israel."

According to Sevryukov, U.S. agritech companies focus too much on small-scale solutions, like vertical farms, and gardens in garages, which "won't feed the humanity in the future."

Ukrainian and Israeli entrepreneurs, in contrast, try to solve large-scale problems, that will be "groundshaking," Sevryukov said.

He adds that Ukraine is lucky to have so many agritech startups, even if most of them are looking to earn money abroad, like Agrieye. The company charges $5 per hectare for its analysis work in foreign countries — but, in Ukraine, offers the service free because "farmers can't afford it."

But Sevryukov is sure Ukrainians will be able to pay for his company's services eventually.

"Agritech will help agriculture leapfrog 15 years forward in development, and (Ukraine will) catch up with other countries in this sphere," he says.

Linking farms to banks

While, to some, the subject of agritech summons images of robots working the fields and tending plants, Sevryukov has more down-to-earth understanding of what modern technology can bring in the near future.

The next big thing, according to him, is to connect physical things with the online world. There will be technology that will take data from each farm and place it online. Banks will then be able to use this information to decide more quickly where to issue loans to farmers.

"This will affect the efficiency of business in this sphere. Food production is a business that will never disappear — people will always eat. So it's important that this sphere is efficient."

Finding bad soil

Another agritech entrepreneur, Sergii Skok, shares Sevryukov's focus on the soil, and his international ambitions. His startup Skokagro already has clients in Canada, Australia, and Germany.

In Ukraine, Skok works with big agroholdings like Kernel, Ukrprominvest-Ahro, Cygnet — larger companies than those Agrieye works with.

The technology Skokagro is developing is also different: The company has created a contraption that looks like a box with a long needle coming out of it. The needle goes into the ground and measures the compression of soil.

The data collected is placed online so that users can see remotely where the soil is too compressed and needs deeper plowing, where it is not practical even to plant at all, and where a farmer can avoid planting and save money on seeds, fertilizer and water.

According to Skok, farmers typically lose 15 percent of their harvest due to soil compression — seeds planted in such soil are unable to develop their root systems, and die. The result is in multimillion loses for agro-holdings.

Along with the soil compression meter, the company makes sensors to measure temperature, humidity and wind, giving farmers a fuller picture of their land's

Agritech – the use of technology in agriculture – brings advances and greater productivity to the fields. With keen sensors, cheap drones and advances in data management, agritech aims to increase potential in a sector that accounts for 12 percent of the economy and more than 30 percent of exports. One day, industry players hope, robots may reap harvests instead of humans.

growing conditions.

Rooting out mismanagement

Startups like Agrieye and Skokagro are rooted in Ukraine's unfurling IT community, which, once sparse, is becoming better able to nurture innovation.

Yuriy Petruk is an example of this — an entrepreneur and community builder who's trying to increase raise the level of the industry.

Ten years ago, he founded AgTech Ukraine, an association to promote the role of IT in agriculture.

Petruk organizes meetups and hackathons, and matches up tech companies with agriculture producers, trying "form a proper dialog" between agriculture firms and budding agritech startups.

He thinks the adoption of new technologies is the only way the agriculture industry players will manage to survive.

"The others, not using them, will simply die out."

Petruk also highlights the importance of transparency: Some European supermarkets even want to know the type of corn farmers used to feed their chickens. The use of technology can help farmers keep track of such details down to the last bag of feed.

Meanwhile, the most popular tools in Ukraine are ones for eliminating waste and theft.

Companies are developing electronic databases to track what they buy and how much they spend. Using these, dishonest employees — say one who steals 50 liters of fuel a day — are easy to root out.

"You sack several such (employees), and the technology pays for itself," Petruk said.

Change in mindset

All agritech experts agree that Ukraine could be among the world's agricultural leaders if it applies IT on a large scale. However, they also say Ukraine still has a long way to go in this regard.

Entrepreneur Skok hopes for a change in mentality in the next generation. According to him, the average age of a farmer is 55, and few are ready to change the way they do business at this age.

"A lot of agritech solutions are ready but are still not in use," Skok said. "There have to be more younger, open-minded farmers, and these may appear in a decade or two."

Petruk from AgTech Ukraine agrees. But he also thinks that agriculture is a conservative field in general. Compared to the fast-moving world of tech, results in agriculture come only with the slow changes between the seasons, with the main results being seen only once a year, after the annual harvest.

"But there's a chance of a breakthrough anyway," he said. "Ukraine has a lot of programmers and tech experts who are recognized globally. That's our competitive advantage."

The Kyiv Post's technology coverage is sponsored by Ciklum and NIX Solutions. The content is independent of the donors.

Ukrainian wine grower Vitaliy Malanchuk ties up vine shoots in his vineyard on June 7 in Hiyche village of Lviv Oblast. (Yevhen Kotenko)

Choices for drinkers of Ukrainian wine keep getting better

BY BERMET TALANT
BERMET@KYIVPOST.COM

HIYCHE, Ukraine — In a small village near Ukraine's border with Poland, Ukrainian winegrower Vitaliy Malanchuk works in his garden-turned-vineyard.

Pale flowers on the tips of young vines have already set fruit. The new grapes, visible among the leaves, are smaller than peas. Vitaly carefully takes a tendril and fastens it to a wire with sticky tape so that the vine grows upwards.

"People go wide-eyed (in amazement) when they learn I grow wine grapes in Lviv region," Malanchuk says. "But you just have to know what varieties to plant, and how to plant them."

"Our climate allows only the growing of early or midseason-ripening varieties, because the first frosts come around October, so we have to harvest by mid-September."

Lviv is not yet on Ukraine's winemaking map. The country's relatively small and internationally undiscovered wine industry has traditionally be concentrated in the south, around Odesa and Kherson, as well as on Crimean peninsula, illegally occupied by Russia since 2014. Another booming wine region is Zakarpattia.

This fall, a newly established community of over 40 Lviv vintners are hoping to change that. In September, they'll host the

The m-Agri mobile app: the key to grow small farming in Ukraine

By Eugene Krazhan, B2B director of Kyivstar:

Ukraine is an agricultural country. We have huge potential, if we use our farmland wisely, in a civilized, modern, technological and environmentally friendly way. We need to put our knowledge, experience, technology, finance, and time to realize this potential. The m-Agri app from Kyivstar is an example of such investments. It is intended to become a platform that will help raise the level of Ukrainian farms and make their products competitive not only in our own market, but also in the European markets.

In early summer, Kyivstar, Ukraine's largest mobile operator, launched a new mobile application called m-Agri, which was developed with the support of the Ministry of Agrarian Policy and Food of Ukraine. This product is designed for small farms, and its main task is to help farmers get relevant and useful information for their business. After all, a lack of information often hinders the development of farms – it is difficult for small farmers to compete with big agroholdings that have a whole staff of professionals, technology and access to information and trade resources. Recognizing this, we decided to offer small farmers an alternative - a mobile "all in one" assistant, which fits in your pocket and is always at hand.

For now our application has seven main sections:

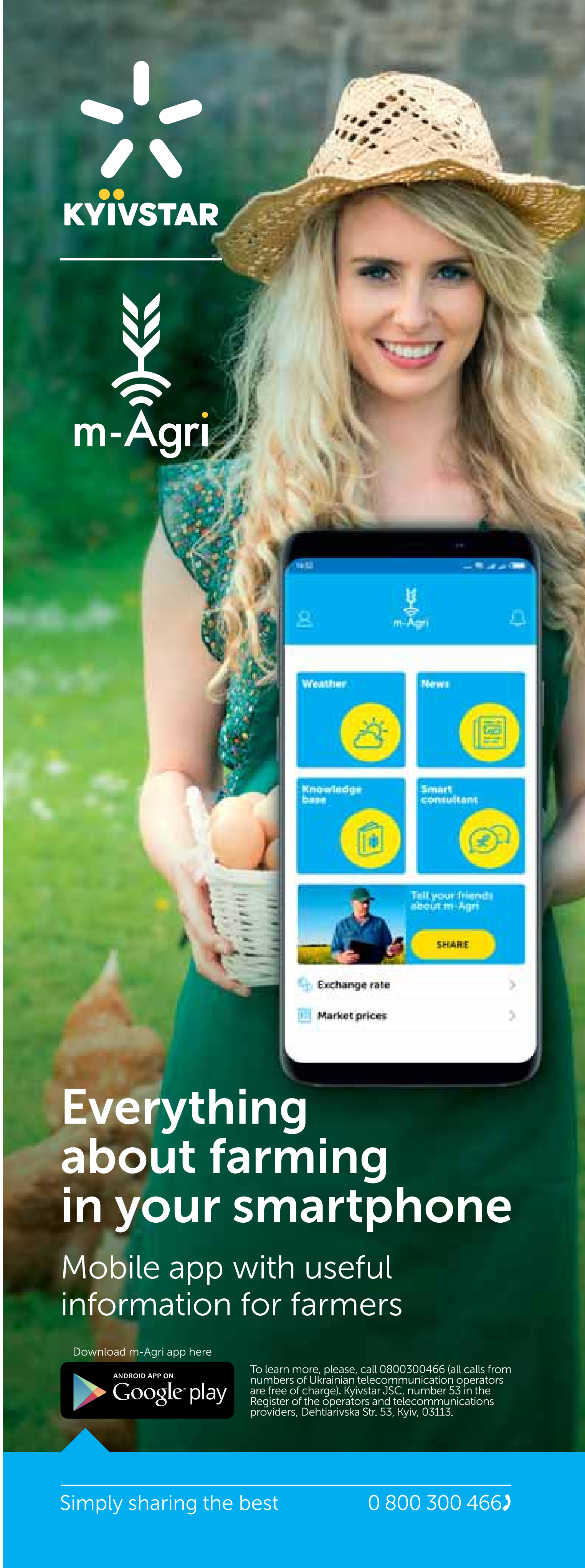
- News: general, livestock, crop production, technology, and government;
- Prices: wholesale and retail market prices for products in different regions;
- Weather: current, hourly and daily forecasts
- Data base: access to information about animal and plant diseases, pesticides, seeds and plants; pests, etc;
- Finance: currency exchange rates and convenient converter;
- Smart Assistant: online consultations with qualified agricultural experts
- Messages, circulars, and notifications.

The functions of m-Agri are still being developed, and will be further supplemented with the financial services that are in most demand – non-cash payments, credit facilities, etc., as well as a trading platform where it will be possible to sell goods and buy products from other sellers.

Our application will allow farmers not only to raise their level of knowledge and apply the best world practices on their farms, but will also open up new markets for them. Their products will become competitive as European standards to quality and ecology, product traceability can be applied to them. As a result, farmers will be able to export their goods to new markets. That will mean new opportunities for growth and business development. It is also important to say that it is not just farmers that will find this application useful – large agroholdings made up of lots of small farms, as well as vendors, suppliers, banks, insurance companies, and carriers will find it interesting too. With the help of m-Agri, it is easy to set up a convenient direct channel for communication between a holding and its farmers. You can send a group of subscribers quick messages, provide consultations and give professional support, and have your own hotline in 24/7 mode.

Today Kyivstar is discovering the experiences of m-Agri users and is continuing to develop the app. It is currently available for installation on smartphones running the Android operating system.

Learn more at https://magri.kyivstar.ua/



first regional wine festival featuring Lviv wines, promoting local grape varieties and local wines.

This small community is part of the garagiste movement — a French term for small-scale, family-run wineries. The movement has sprouted in regions of Ukraine less-known for wine growing, like Lviv, Vinnytsya, Dnipro, and Kropyvnytskyi.

Unfortunately, vins de garage can't be found in stores. Due to limited production volumes, around 1,000 bottles per year, and the absence of licenses, garage winemakers sell only to friends, at food festivals, and to order. But many hope to turn their hobby into a business. And a new law passed in April will help them, simplifying the registration procedure for small- or medium-sized wineries.

Learning the land

Malanchuk, 38, started grape cultivation by chance four years ago, and then became a self-taught wine producer.

In May this year, he won the top prize at the Kyiv's UWine Awards with an aromatic white wine fermented from Traminer, an early ripening, cold-resistant variety he grew in his little vineyard of 0.2 hectares in Hiyche.

"It gave me a huge boost of confidence and motivation," he says, showing a shed in the backyard of his house where he keeps 54-liter glass bottles filled with fermenting wines.

His achievements even helped him to land a job as a manager at a 1.5-hectare private vineyard. But he hopes one day he'll fully devote his time to his own product.

Much of what Malanchuk learned about winemaking came from another Lviv winemaker, he says: Bohdan Pavliy, one of the region's winemaking pioneers.

Pavliy, once a small Lviv winemaker, has since expanded from his native turf. After years of experimenting with different grape varieties on Lviv soils, Pavliy, 61, decided to plant a half-hectare vineyard on the banks of the Dniester River in Khmelnitsky Oblast, where the climate and rich soil allow him to grow grape varieties for red wines.

Four years ago, he expanded, building a small winery nearby on the territory of the picturesque Podilskiye Tovtry national reserve. Now he hopes to attract tourists.

"I'm still limited in volumes but I don't want to go into mass production," he says. "I want to develop wine tourism, bring people for tastings at my winery," he says.

After Crimea was annexed in 2014, Ukraine lost a major swathe of its wineries. Now, its winemaking is concentrated in Odesa, Mykolaiv, Kherson and Zakarpattia oblasts.

Domestic producers

Both men see an opportunity in a new bill adopted in April, which allows medium- and small-scale wineries — ones that produce up to 100,000 liters of wine annually — to be registered and legally produce and sell their wares.

The bill also reduces the paperwork necessary to do this. Until recently, winemakers had to submit 150 different documents to obtain a production license. Under the new law, winemakers will need just a copy of their winery's foundation documents, a receipt for the Hr 780 ($30) license fee, and an official certification from a laboratory that the winery meets technical specifications.

Earlier, in 2016, the government also abolished a requirement that vintners obtain a separate license to sell wine made from the grapes they grow. This license used to cost Hr 500,000 ($19,120).

The dozen-or-so individual and family-run wine producers whom the Kyiv Post spoke to welcomed the new legislation, but said they were waiting for the procedures to be clarified.

"We haven't seen the declaration form yet," Pavliy said. "The license was abolished but there's an excise tax. We are waiting for more information."

Well-established large wineries, meanwhile, don't see legalized garage winemakers as competition.

At the end of the day, the more good wine is produced in Ukraine, the better for the industry, says CEO of Inkerman winery Anna Gorkun, adding "as long as there's an adequate quality control."

"The next step for the government should be aligning Ukrainian legislation with European laws, defining terroirs (areas for winegrowing, their soil types and micro-climates), and developing an overarching program for the development of wine industry," she says.

Recovering from war

Russia's 2014 invasion of Crimea, the major wine growing and producing region in

Ukraine, has been a heavy blow to the industry. According to Gorkun, Ukraine has lost control of not only its finest vintage wineries (among them Massandra, Novy Svit, Inkerman), but also almost half of its grape supply.

Originally established in Crimea, Inkerman had to abandon three plants, cellars, and 3,500 hectares of vineyards behind, and register a new company in Kyiv to maintain the brand.

Today, Ukraine's Inkerman doesn't own any vineyards. Instead, it buys grapes and bulk wine from local farmers in southern Ukraine. It then ferments and bottles wine at the Tavriya cognac plant in Kherson Oblast.

The Sevastopol-based part of Inkerman remains in operation, but sells only to the Crimean and Russian markets, owing to sanctions that ban imports from the occupied territory.

Without access to its estate in Crimea and homegrown grapes, Inkerman had to change its product range, and suffered a drop in sales. But things are looking up, says Gorkun. Last year the company sold 10 million bottles of still and sparkling wine. This spring, it presented a new series of its signature oaked wine — a wine fermented in oak barrels to produce a distinctive color and flavor.

"The most challenging task was to produce wine as good as before, so that customers wouldn't taste the difference," Gorkun says.

She adds that the evolution of Ukraine's wine industry is stalled, owing to a lack of state support, high excise duties, and the dominance of cheap imports. Ukraine's association agreement with the European Union also puts the Ukrainian wine industry at a disadvantage, as it waives import tariffs on foreign wine and grapes.

"We didn't give the Ukrainian wine industry a chance to recover from the loss of Crimea, but opened the market for imports," she said.

According to her, the capacities of Ukrainian wineries allow an increase in the production of wine, but without Crimea there's shortage of grapes and bulk wine. It would be logical to make imports of these starting materials to Ukraine duty-free, rather than lifting duty on wine, she said.

As a result of the surge in demand, the cost of homegrown grapes has risen by 50 percent over the last three years. To stimulate domestic vine cultivation, Gorkun says, state subsidies to cover expenses for planting vineyards would help.

Furthermore, growing domestic excise duties on Ukrainian alcohol make it hard for Ukrainian products to compete in price with cheap imports. Inexpensive Spanish, Moldovan, French, and other wines are outcompeting Ukrainian ones, which are sold for Hr 100–190 ($4–7) for a bottle on average.

Despite the challenges, Inkerman sees growth potential on the domestic market, and further room for expansion abroad.

"There are good-quality Ukrainian wines, and they're not any worse than imported ones," Gorkun said.

"At Inkerman we decided that we would do our best, even if it takes us a long time to rebuild what we had before."

BANKING

SECTION PARTNER

Geneva-based Ukrainian oligarch Ihor Kolomoisky talks on the phone next to Kyiv Dynamo soccer club President Ihor Surkis in May 2008. Surkis recently won a Supreme Court case against the state-owned PrivatBank, a win for both him and Kolomoisky. (UNIAN)

Kyiv Dynamo beats PrivatBank in court win for ex-owners

BY JOSH KOVENSKY
KOVENSKY@KYIVPOST.COM

Kyiv Dynamo: 1. PrivatBank: 0.

That's the score as of last month, after Ukraine's Supreme Court ruled against the National Bank of Ukraine in a lawsuit with Kyiv's Dynamo soccer team.

Dynamo sued the NBU over a bail-in of funds at PrivatBank after the government took over the troubled lender. The team's owners — Grigory and Ihor Surkis — were deemed related parties of the bank, causing them to lose nearly $40 million when bank assets were written off.

And the Surkis brothers are far from the only related parties afflicted by the nationalization that have the desire and the means to fight back against the government.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Ukraine's SME loans leader prioritizes private customers

ProCredit Bank turns spotlight to private customers as loan portfolio growth fuels demand for deposits

Viktor Ponomarenko is the General Manager of ProCredit Bank in Ukraine

In recent years, ProCredit Bank has bucked the market stagnation trend among Ukrainian lenders and led the way in terms of loan portfolio expansion. The Ukrainian branch of the Germany-based international banking group posted robust annual loan portfolio growth of 35% in 2017, following on from an even more striking 40% increase during the previous year. With this upward trend continuing into 2018, ProCredit Bank General Manager in Ukraine Viktor Ponomarenko says the bank is now seeking to help facilitate further growth by bolstering deposits. "We harbor big ambitions to increase deposits as we also want to continue expanding our SME loan portfolio," he explains. This means reemphasizing the existing private customer banking services they offer.

This prioritization of banking services for private customers is not only about boosting coffers and attracting new capital to the bank in the form of fresh deposits. ProCredit Bank has always had a strong private customer banking arm, but it has been somewhat overshadowed in recent years by the eye-catching progress the bank has made in its efforts to provide financing tools for Ukraine's SME sector. Mr. Ponomarenko believes the time is now right to highlight the options available for private customers. "The SME sector remains our core focus and is central to our identity as a financial institution, but we have also built up very strong services for private customers. However, this is not always immediately apparent to customers because attention understandably tends to focus on the far more high profile SME direction of our work."

Mr. Ponomarenko says he is relying on a combination of convenience, transparency, profitability and security to help his bank stand out from the crowd and attract new private customers. All four factors benefit from the bank's strategic focus on digitalization of services. In recent years, ProCredit Bank has embraced a concept of expanding services via digital platforms rather than physical branches, with virtually all day-to-day banking transactions already possible online and work progressing on a new service that will allow clients to open an account online without setting foot in a branch at all. "The objective is to offer a simple, convenient and transparent business model to customers," says Mr. Ponomarenko. He argues that while digitalization remains the talk of the Ukrainian banking industry, in practice there is still a strong dependence on traditional branch networks and cash. "We believe that using digital instruments is the right choice instead of the more traditional way of processing transactions, where customers are obliged to visit branches and fill out all manner of paperwork. The goal is to minimize this paper chase and replace it with online transactions wherever possible. We want to be more innovative and at the same time secure."

Private clients at ProCredit Bank will have a clear idea of what they are signing up for thanks to standard monthly banking fees that remove the uncertainties of service-related charges. "This provides customers with the financial freedom and transparency to plan ahead," he explains. "It can often be challenging to compare the services of different private banking packages on offer in Ukraine due to the complex fee structures involved. In this regard, we are as transparent as can be." This flat fee model makes ProCredit an obvious choice for financially active customers who carry out all their transactions via internet and require a variety of personal banking services that could easily lead to high fees if charged individually. In practice, this means members of the growing Ukrainian middle class, or as Mr. Ponomarenko puts it, "people who have sufficient income to save and to spend."

Along with other international banks on the Ukrainian market, the ProCredit Bank brand enjoys the kind of associations with security that few Ukrainian banks can match. The upheavals in the Ukrainian banking sector since 2014 have seen close to one hundred banks closed down, rocking public confidence in the industry. This has led many private banking customers to look towards local branches of international banks as safe havens. This sense of security also extends to the digital platforms used by ProCredit Bank in Ukraine, which Mr. Ponomarenko explains are developed by a company within the ProCredit Bank Group to comply with both Ukrainian and EU regulations. "As part of an international banking group based in Germany, we are able to apply EU security standards to all our transactions. Clients can be confident that the services we offer are very solid in terms of safety and security."

Ultimately, the biggest pull for many private banking customers remains the return they can expect to make on their deposit. Mr. Ponomorenko claims that ProCredit Bank's business model and online emphasis allow the bank to offer more attractive interest rates than many other international banks operating in Ukraine. "Since we are placing more and more emphasis on digital banking, we are able to offer the largest possible access network online while avoiding dependency on physical locations. This absence of expensive physical infrastructure allows us to pass savings on to our customers in the form of more competitive conditions. In other words, our lower costs create the basis for higher interest rates."

By Peter Dickinson

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Former PrivatBank co-owner Hannadiy Boholyubov's ex-wife lost Hr 500 million ($19 million) in the bail-in, while Boholyubov's business partner, the oligarch Ihor Kolomoisky, has filed scores of lawsuits around Ukraine challenging aspects of the nationalization.

Concorde Capital analyst Oleksandr Paraschiy says that the legal issue at the heart of the Dynamo case comes down to National Bank of Ukraine officials failing to certify a list of related parties as the bank was nationalized in December 2016.

"Now Kolomoisky and Surkis and other guys, who naturally are related, are claiming that there is no legal basis for declaring them as related parties, because nobody recognized this relation," Paraschiy said.

Some observers in Kyiv suggest that the Surkis's victory in the Supreme Court could presage a far more explosive scenario: that the bank's former owners Kolomoisky and Boholyubov manage to overturn the nationalization decision in the courts, restoring their control over the lender while nuking western confidence in the Ukrainian government.

The Ukrainian government took control of PrivatBank in December 2016 to fill a $5.6 billion hole in the teetering lender, after Kolomoisky and Boholyubov allegedly embezzled billions from the bank through a series of insider loan agreements.

'Can't sue myself'

Speculation around Kolomoisky's strategy comes in part from an interview he gave to German broadcaster Deutsche Welle in May.

In the interview, the oligarch confirmed that a $2.5 billion asset freeze against him and his business partner Boholyubov is a problem.

Calling the nationalization "illegal," Kolomoisky said that he had a series of court cases in Ukraine against the nationalization "going with fluctuating success."

"I think that once these court processes reach an end, I'll be able to optimistically look at the future," he said. "More than 80 banks were liquidated in Ukraine, and now many of (the liquidations) have been recognized as illegal, orchestrated, and incorrect."

"And if it was incorrect, then the whole London process must end by itself, because we cannot sue ourselves," he said, referring to ongoing legal action in courts in London, in which PrivatBank is suing Kolomoisky for losses it incurred.

But it's not clear how much success Kolomoisky will have.

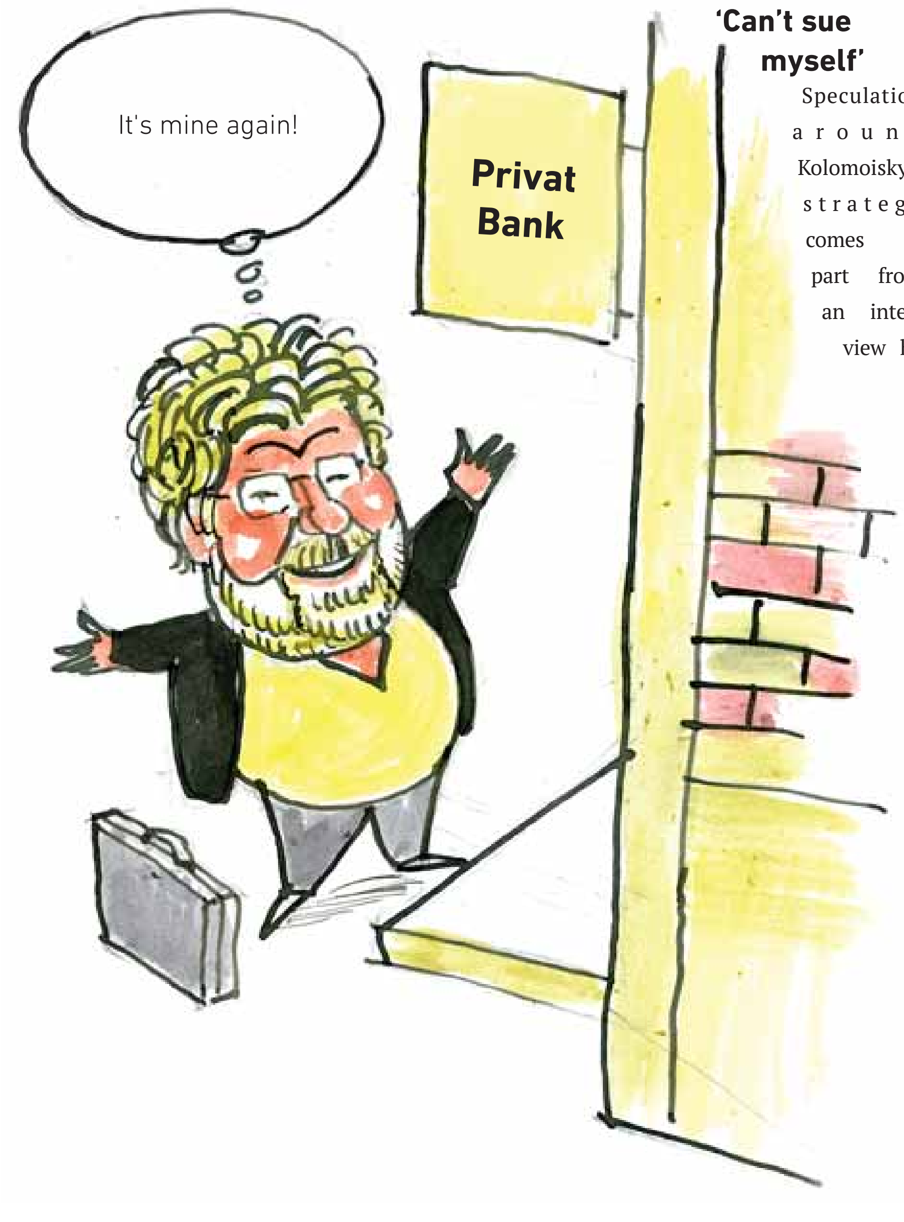
"No," said Paraschiy, when asked if Kolomoisky's plan made sense.

Others are more fearful. For the courts to return PrivatBank to Kolomoisky, a number of different factors would have to fall into place, not least of all tacit agreement from the Presidential Administration for the court to approve such a return.

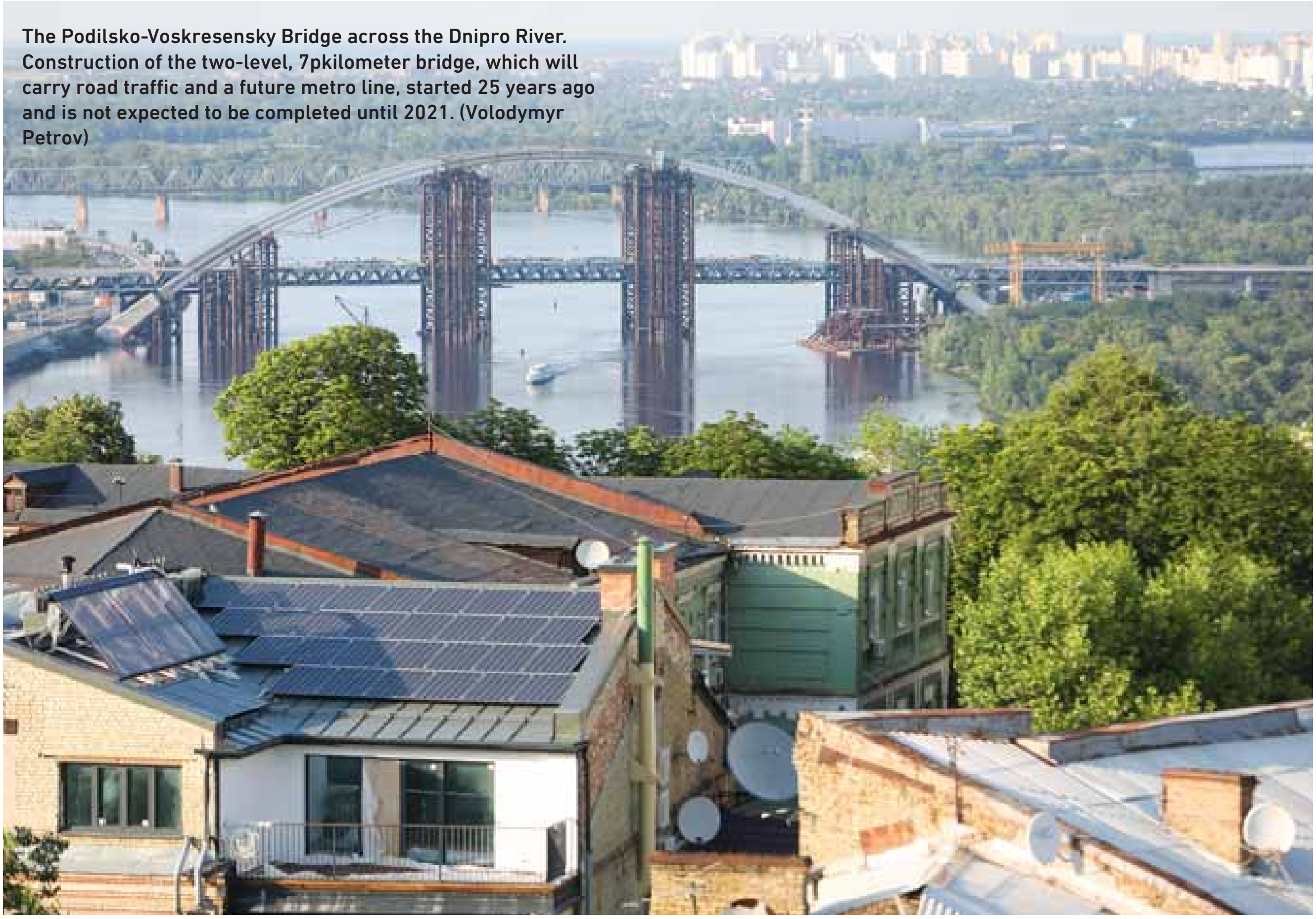
But with presidential elections coming in March 2019 and with Kolomoisky openly supporting Batkivschyna Chief Yulia Tymoshenko, some in Kyiv see such an agreement as a distinct possibility.

The results could be explosive for Ukraine's relations with its foreign backers.

"It would be a nuclear bomb going off in the center of Kyiv," said former Finance Minister Oleksandr Danylyuk of the consequences for Ukraine, if PrivatBank were to be returned to Kolomoisky.



Oligarch Ihor Kolomoisky stated that he is attempting to fight off a $2.5 billion lawsuit against him in London by retaking control of PrivatBank, which sued him for embezzlement one year after it was nationalized. Experts say that Kolomoisky would be unable to succeed without reaching a political agreement with the Ukrainian authorities.



The Podilsko-Voskresensky Bridge across the Dnipro River. Construction of the two-level, 7pkilometer bridge, which will carry road traffic and a future metro line, started 25 years ago and is not expected to be completed until 2021. (Volodymyr Petrov)

Goesta Ljungman: What is the economic cost of corruption in Ukraine?

GOESTA LJUNGMAN

The Ukrainian economy needs to grow.

For far too long, Ukraine has fallen behind neighboring countries' economic development, with the population paying a high price through low earnings, unemployment, low-quality public services and a deteriorating infrastructure.

The relevant question to ask is: What do prospering countries have that Ukraine does not?

With the many advantages that Ukraine enjoys — a well-educated workforce, enviable endowment of natural resources, a vast area of uniquely fertile agricultural land, a good geographical location — Ukraine should share the economic successes of the countries on its western borders. An important part of the explanation why Ukraine continues to lag behind in economic development is that it has not succeeded in reducing corruption.

Various measures of corruption, collected by different organizations and for different purposes, all show a strikingly →74

ENERGY

SECTION PARTNER

HUAWEI

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Yuri Vitrenko, Naftogaz's business development director, says that his team has fought for reforms to make Ukraine's energy sector more productive and transparent, but often struggles to overcome vested interests and entrenched corruption. (Kostyantyn Chernichkin)

Ukraine is fighting for energy security and independence, to consternation of energy barons

BY MATTHEW KUPFER
KUPFER@KYIVPOST.COM

Ukraine's natural gas industry won a landmark case against Russia on Feb. 28, when a Stockholm arbitration court ruled that Gazprom, Russia's state-controlled gas company, owed its Ukrainian counterpart Naftogaz $4.6 billion for failing to deliver gas to Ukraine for transit onward to Europe.

After taking into account a previous ruling requiring Naftogaz to pay debts to Gazprom, it meant the Ukrainian state company was owed nearly $2.6 billion by Russia's giant, state-controlled gas company.

It was a stunning victory for Kyiv. But experts say this is just one battle in a broader war to protect Ukraine's energy security — and the country isn't necessarily winning.

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- High reliability by virtue of natural cooling technology without rotating fan, completely sealed IP65 housing and design without DC fuses.
- Each inverter is equipped with a complete set of protection devices.
- Maximum efficiency > 98.9%. The topology includes 6-core IGBT converter unit, whereby each pair of strings is independently controlled.
- Huawei inverter design does not require maintenance and regular replacement of consumables and spares (fan, DC fuses).
- Power line communication technology. Investor should not buy, deliver and install RS485 cable – data transmission is provided through AC power cables without additional costs.
- Free monitoring system with details up to a single string and unlimited options for electricity production optimization. As a unique function the client receives intelligent diagnostics of solar panels - the real time identification of more than 21 possible defects and problems of generation field.

Photomate has collected negative examples of other solar inverter brands operation and maintenance experience.

The purpose of this case study is to increase awareness of investor for choosing the key components of solar system with focus for 25 years operation time.

GENERAL PROBLEMS:

- Increased risks with not bankable brand/product will lead to complications in case investor will decide to sell his solar project.
- Energy consumption for active cooling leads to decreasing of energy yield injected into the grid.
- Unavailable or expensive string monitoring as extra charge. Impossible to make accurate and efficient O&M provides loss of production, lower PR.
- Regular maintenance and cleaning of inverters, including replacement of consumables and spare parts, as fuses, filters and fans once per 3-5 years. Downtime of inverter during maintenance, additional cost of spare parts.
- Unprofessional technical support during designing, construction and commissioning of PV plant. Consequently, low PR and increased project risks for investor.

SPECIFIC FAULTS:

- Snow (dust, insects) flow inside air duct of cooling system. Eventually fan drive is blocked due to its contamination, with further stop of inverter. After some time humidity destroys internal electrical components due to extensive corrosion.
- Lack of protective equipment. Lightning strike hit in RS485 cable destroyed communication boards of series of inverters connected in one line.
- Loss of communication line and problems with RS485 cable - loss of connection and damages by rodents disables monitoring system. Fault identification and recovery is complicated because cables are laid underground.
- Inefficient topology of inverter control and monitoring system. Loss of data transmission to Master inverter provides communication blackout of all connected slave devices. Consequently, all monitoring data collected during period of recovery is lost.
- Electricity production downtime due to lack of specific spare parts, or delay of its delivery. Sometimes client is asked to pay customs expenses himself.

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Find more on **www.photomate.eu**

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Russia and Germany have started constructing Nord Stream 2, a gas pipeline running under the Baltic Sea that would circumvent Ukraine. Meanwhile, the TurkStream pipeline from southern Russia to Turkey is near completion. Both could deny Ukraine gas transit fees worth at least two percent of the country's gross domestic product.

The front line in Kyiv's struggle for energy security is reform of the sector. But politics is increasingly standing in the way. And some doubt that Ukraine has the will to push through reforms and fight entrenched corrupt practices.

"I was struck — even when I was in Kyiv at the end of last year — by how much people were talking about elections," says Edward Chow, an energy expert at the Center for Strategic and International Studies, or CSIS, think tank.

"And elections seem to be stalling the process."

Gas transit corridor

Despite four years of war with Moscow, Ukraine remains deeply dependent on Russian energy: gas, crude oil, petrol, and coal. The country also plays the role of a transit corridor for Russian gas sold to Europe.

In 2017, Ukraine transported around 93 billion cubic meters of Russian gas through its pipelines, only slightly more than the projected capacity of Russia's current pipeline projects. Moscow uses 80 percent of Ukraine's gas transportation capacity, according to UkrTransGaz, Ukraine's state gas transport system operator.

Since 1991, so-called "gas wars" have repeatedly flared up between Naftogaz and Gazprom over gas prices and outstanding debts, threatening gas supplies to both Ukraine and Europe. At times, the conflicts have even led to temporary shut-offs.

The case heard in Stockholm dealt with two agreements that Naftogaz and Gazprom reached in January 2009. But the conflict over them erupted as part of the broader collapse of relations between Kyiv and Moscow in 2014.

After the start of Russia's occupation of Ukraine's Crimea and the Kremlin's military intervention in the Donbas that year, Ukraine's dependence on Russian gas became a security risk for the country. Meanwhile, deteriorating relations with Kyiv made Nord Stream 2 a more expedient project for Moscow.

In November 2015, Ukraine stopped purchasing gas from Russia, and began importing it from Europe in a process known as "reverse flow." However, while these gas molecules are contractually European, they are geologically Russian — sold to Kyiv after being transported from Russia through Ukraine's vast network of pipelines.

Real energy independence will require something more than reverse flow, particularly with Nord Stream scheduled for completion in 2019.

Ariel Cohen, an expert on energy security affiliated with the Atlantic Council, suggests the current Ukrainian pipeline system helps prevent an all-out war between Ukraine and Russia.

If Nord Stream and TurkStream come into operation, "Russia can do in Ukraine whatever it wants and not suffer any serious economic consequences," Cohen said at a conference in Washington on June 14.

Steps to reform

Dealing with the Russian threat thus means reforming the gas sector. But, for a country used to years of cheap gas and reliable transit fees, that means both clearing out entrenched interests, and making ordinary households pay a more realistic, market-based price.

In May 2015, Ukraine passed the law "On the Natural Gas Market," which would help to create a competitive gas market based on EU legislation. The law was one of the requirements Ukraine had to meet to receive aid from the International Monetary Fund.

This is one of several important steps Ukraine has taken since 2015, says Gennady Kobal, director of the ExPro consulting firm. Ukraine has rapidly increased gas imports from Poland, Slovakia, and Hungary. And, in 2016, the Cabinet of Ministers launched a program to ratchet up domestic gas production from roughly 20 billion cubic meters to 27.6 billion cubic meters by 2020.

This year, Ukraine decreased taxes on new gas wells from 14.29 percent to 12.5 percent, a move intended to stimulate exploration and investment in the sector.

"From the legal point of view, Ukraine has done a lot," Kobal says.

But breaking its dependence on Russian energy has proven easier for Ukraine on paper than in reality.

The 2020 domestic extraction goal is now clearly impossible. Extraction is growing slowly, while investment remains limited. Kobal believes the sector suffers from a lack of equipment, specialists, and technology.

More concrete reforms have also proven elusive. In March, Prime Minister Volodymyr Groysman delayed increasing the price of gas for household consumers to market levels, a condition for International Monetary Fund financing. Ukraine's artificially low gas prices benefit corrupt business people, who buy domestic gas and resell it at market levels.

Plans to unbundle gas distribution company UkrTransGaz from Naftogaz in line with the European Union's Third Energy Package also appear to have stalled.

In April, Naftogaz CEO Andriy Kobolyev requested that Groysman delay unbundling for two years, until the company's contract with Gazprom — which it is required to complete under the Stockholm arbitration — concludes.

The next reform set to come into force is daily balancing, which will allow gas trading using daily — rather than monthly — contracts. If that doesn't happen, it will mean "reforms of the market have stopped" and Naftogaz has come into conflict with the state energy regulatory commission, Kobal says.

"That's a very bad signal because these are the structures that should pull the market along."

He predicts daily balancing won't happen in August.

Inside Naftogaz

Kobal's prediction is a likely outcome, according to Yury Vitrenko, Naftogaz's business development director.

But the shortfall isn't Naftogaz's fault, Vitrenko says. Rather, his team has been fighting for reform, but has not always been successful going up against entrenched corruption.

After Ukraine passed the 2015 "Natural Gas Market" law, its next step was to develop secondary legislation. Vitrenko's team pushed for Ukraine to adopt European network codes, including daily balancing, which govern Europe's electricity market.

Locally produced norms could include loopholes and exceptions that would allow vested interests and corruption to remain in Ukraine's energy market, Vitrenko says.

But Ukraine's energy regulator and regional gas distribution companies, largely controlled by natural gas oligarch Dmytro Firtash, insisted on adopting Ukrainian norms.

"We've been fighting — and now it's for more than four years — to adopt a truly European network code," Vitrenko told the Kyiv Post.

In June, the Ukrainian government appointed a new regulator, Oksana Kryvenko. Now, Naftogaz is appealing to her to implement the European network codes.

Vitrenko says his hands are even more tied with unbundling. In order to separate UkrTransGaz from Naftogaz, the company must amend its transfer contract. However, as early as 2014, Gazprom refused to amend.

Naftogaz then asked the European Commission to make Gazprom amend the contract, but it directed the Ukrainian state company to arbitration. And the international arbitration tribunal claimed to have no jurisdiction over the matter.

"The only stakeholder who can do it is the European Commission, but they're not doing it," Vitrenko says. "You either make Gazprom amend the contract and play by

Yuri Vitrenko examines one of over 100 tomes that make up Naftogaz's international arbitration case against Russian state-controlled gas company Gazprom. (Kostyantyn Chernichkin)

European rules, or it leads to the delay in unbundling."

Ukraine's only leverage would be halting transit to force Gazprom's hand, Vitrenko says. But Europe opposes this move, and it would both damage Ukraine's reputation as a reliable partner and likely increase support for Nord Stream 2.

Little sympathy

Few energy experts support Vitrenko's claims. ExPro's Kobal believes time is of the essence in Ukraine's energy reforms.

"We can't constantly put things off," he says. "We need to do as much as possible before elections."

And the Atlantic Council's Cohen sees little reason why the Stockholm decision should affect unbundling. The politically connected state-owned company's role as an oil and gas monopoly and involvement in exploration creates room for corruption, he says.

Cohen also believes Ukraine should change its tariffs to attract investment, improve conditions for alternative energy, and better maintain and renovate the country's massive nuclear power potential. Finally, it should regularize its purchases of coal and find a supplier other than Russia.

CSIS's Chow suggests that Ukraine must urgently increase domestic gas production. But the conditions for this are poor.

Domestic production has long been stuck at roughly 20 billion cubic meters annually, and there haven't been tenders for new exploration licenses in two years, he says.

That's not because of unfavorable geology: in the 1970s, Ukraine produced over 70 billion cubic meters — enough to cover its consumption needs, with some left over to be exported to other Soviet republics. Rather, the problem is corruption.

"It's all a system wired for insiders," Chow says. Without reform, no one will invest unless they feel they have "insider help."

But with reforms largely stalled, Chow sees only one solution in Ukraine: tough love from the international community.

"As I always say to the IMF people, the time to get tough is on the first (aid) tranche, not the third."

Ukrainian company UDP Renewables plans to invest $200 million in the Ukrainian renewable industry and build solar power plants in Zaporizhzhya, Kyiv, Odesa, and Kherson. (Kostyantyn Chernichkin)

Renewables to bring energy independence to Ukraine

BY NATALIA DATSKEVYCH
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Energy security and independence have moved higher on the agenda in Ukraine since Russia launched its war in the Donbas four years ago.

Before 2014, Ukraine relied heavily on Russia as a gas supplier. But the war and the annexation of Crimea has turned Ukraine away from Moscow and toward friendlier, but pricier suppliers, like Hungary and Poland.

Ukraine hasn't imported any gas from Russia for its own needs for more than two-and-half years now. However, it still imports Russian gas that it transits on to Russian gas company Gazprom's customers to the west.

Now the construction of Nord Stream 2 — a pipeline that will transport gas from Russia to Germany via the Baltic Sea — has raised doubts about Ukraine's continued status as a major transit country for Russian gas, which in turn raises doubts about its energy security.

To some the answer is clear: bolster renewable energy. While the share of energy Ukraine gets from renewable sources is still quite low, at 1.2 percent in 2017 (2.086 million kilowatts), the market is growing rapidly.

Optimistic forecasts see Ukraine obtaining nearly all of its power from renewable sources by mid-century. But this “revolutionary scenario” would require significant investment and development of infrastructure.

Investment and incentives

Ukraine’s current energy generation mix is heavily tilted to fossil fuel and nuclear, with coal- and gas-fired power plants and nuclear power accounting for up to 92 percent of the energy generated.

But that mix has been changing — slowly. Since 2014, $550 million has been invested in Ukrainian renewables, according to Ukraine’s National Investment Council.

That’s a fraction of what Ukraine’s neighbors have invested over the same amount of time. Hungary, not known for its green policies, pumped $649 million into renewables in 2017 alone.

All the same, Ukraine’s renewable sector is growing fast: Renewable production tripled from 2012 to 2017, according to Ukrainian Association of Renewable Energy.

One reason for this is that renewables are a good business in Ukraine, say proponents.

“It’s an absolutely transparent business, which can bring project payback in one to six years,” said Yuriy Podolyak, the commercial director of IK NET, an energy project management company in Ukraine.

Another reason is Ukraine’s green tariff system, set up in 2009, which offers a higher rate to producers of renewable energy on Ukraine’s national energy market — a rate that’s fixed for a producer when they enter the market.

Add to that other favorable factors, such as Ukraine’s large land area and climate, good for both wind and solar power plants,

The prospects for wind power plants are very promising in Ukraine, as the southern regions of the country have light, constant winds, the best kind for electricity production. (Yuliana Romanyshyn)

and there are ideal conditions for the renewable energy market to develop.

“A renewable market is not just a cool thing to have,” Mats Lundin, acting chairman of the European-Ukrainian Energy Agency and founder of wind-power company Vindkraft Ukraina, told the Kyiv Post.

“If you look worldwide today, the renewable market is the only (part of the energy market) that is really developing.”

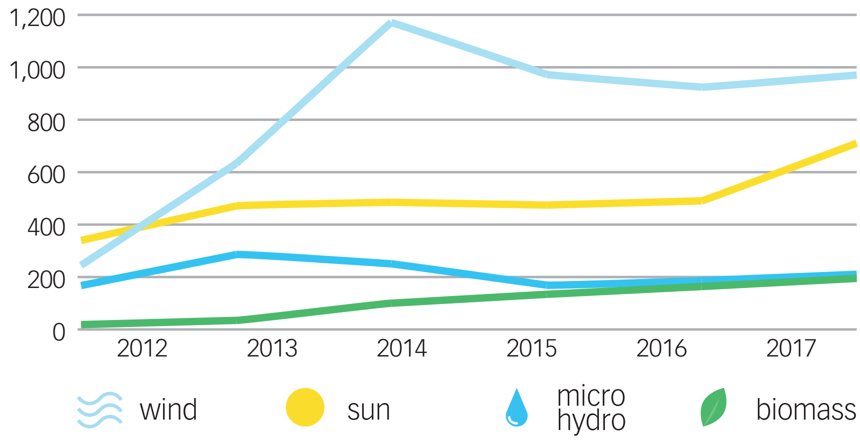
Lundin says non-nuclear renewables will soon be Ukraine’s cheapest energy option, given the social costs of coal power.

“The cost for society to keep coal-fired power plants will be much more expensive than simply going for renewables. So, it’s better to close (coal-fired power plants) and start building more renewables,” he said.

Research by Ukraine’s National Academy of Sciences suggests that, with proper investment, 90 percent of Ukraine’s energy could come from renewables.

Ukraine’s renewable energy during 2012-2017

million kilowatt-hour



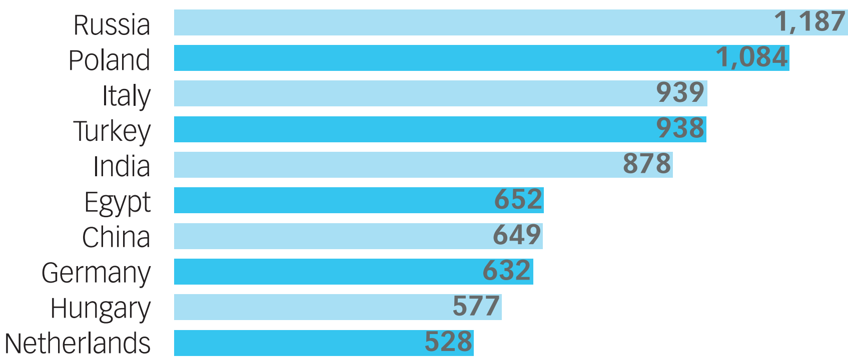
Wind farms are Ukraine’s most popular source of renewable energy in Ukraine producing 971 million kWt hours in 2017, followed by solar energy with 711 million kWt.

Source: Ukrainian Association of Renewable Energy

Valentyna Beliakova, director of energy company TIU Canada in Ukraine, speaks to the Kyiv Post on May 13. (Kostyantyn Chernichkin)

Where do Ukraine's exports go?

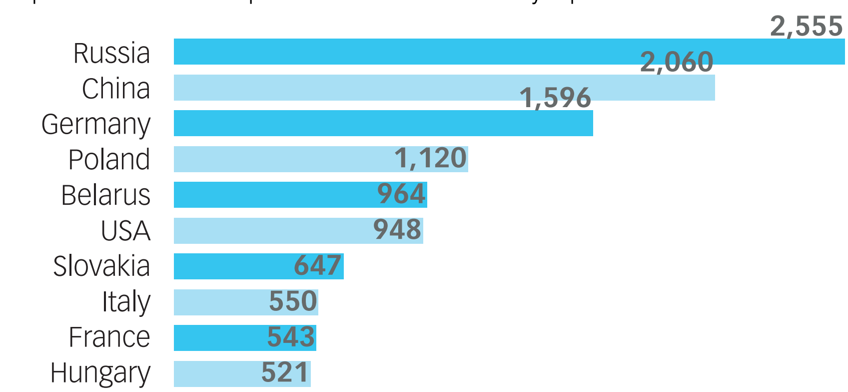
Top 10 export destinations in January-April in millions of dollars



The European Union remained Ukraine's main export destination, but Russia surpassed Poland as the largest single-country importer of Ukrainian goods.

Where do Ukraine's imports come from?

Top countries that export to Ukraine in January-April in millions of dollars



Russia and China are Ukraine's top sources of goods, while the EU together remains the largest market exporting goods to Ukraine.

Source: State Fiscal Service

Wind and solar power

What sources of renewable energy will prove the most profitable, however, is a different question.

The constant, steady winds in the south of Ukraine makes wind-power prospects there good. Wind energy accounted for 47 percent of Ukraine's renewable electricity generation last year, or 970.5 million kWh.

Sixty-five percent of that energy was generated by a single company: DTEK, owned by oligarch Rinat Akhmetov.

The company operates the biggest wind power station in Ukraine — Botievo Wind Farm in Zaporizhzhya Oblast, with a capacity of 200 megawatts. That capacity will soon double, as DTEK has partnered with General Electric to build a second plant in Zaporizhzhya Oblast.

The first stage of construction, a $150 million investment, is projected to be completed in 2019.

After wind comes solar power, accounting for 35 percent of Ukraine's renewable electricity production in 2017–710.7 million kWh.

Just recently Ukrainian solar power company UDP Renewables announced a large-scale partnership with the Spanish company Acciona Energia Global, a global leader in green generation. The plan is to operate a solar plant with an annual capacity of 57.6 megawatts in Kyiv Oblast.

"We plan to reach a capacity portfolio of 100 megawatts in January 2019," said Sergiy Yevtushenko, managing partner of UDP Renewables.

Another large foreign company interested in solar power investments in Ukraine is TIU Canada, which last year built a 10.5 megawatt station in the city of Nikopol in Dnipropetrovsk Oblast.

"Now we're planning about four more projects in Ukraine," said Valentyna Beliakova, director TIU Canada.

Biogas projects

After wind and solar power comes biogas, accounting for 194.8 megawatts of Ukraine's power generation capacity.

Biogas, generated mostly by by-products of livestock farming, has a lower failure rate than solar and wind power enterprises, says Podolyak.

"We see the least number of all failures in the biogas and biomass projects, as these projects are initially evaluated as complex, and so are approached more carefully. In terms of documentation, solar power plants are the most difficult."

Biogas is most effective at a smaller scale: 1 megawatt, says Yuriy Epstein, director of the consulting company Accord.

His opinion is that biogas projects are the most attractive long term, as they don't depend on weather conditions and produce fertilizers for the agricultural sector.

Risks

Ukraine's green tariff promises profits, but the country's business climate remains less than welcoming owing to shifting legislation and sparse credit options in the country.

On the legislative side, a new draft law in the Verkhovna Rada proposes that, from July 1 next year, new solar power plants over 10 megawatts and wind projects over 20 megawatts will have to sell their power at auctions, as opposed to benefitting from the green tariff.

Though such auctions have been successful in other countries, investors said this law, as well as other changes to the legislation, makes planning their business difficult.

"Investors always look for a certain amount of stability in order to predict their actions for a long time. But in Ukraine it's a never ending process. The Ukrainian market can change for various unpredictable reasons," said Lundin.

"We have just started work with the green tariff, and now they're cutting it off and changing the rules of the game for investors," said Beliakova.

Lundin says the idea of switching to auctions for green energy arose because of the great interest in renewable energy projects.

But he cautions that such auctions have failed elsewhere. "Look at the Turkish market... because the tariff is so low, (investors) will have to sit and wait for 5 to 10 years before equipment is cheap enough (for their costs) to match the tariff," said Lundin.

Another risk is the perennially shaky financial market in Ukraine, where banks will rarely give long-term credit, and, if they do, provide it at interest rates from three to four percent higher than in Europe. Investors who fail to get a loan from Ukrgasbank, Oschadband, or other such Ukrainian banks will have to go to the European Bank for Reconstruction and Development for credit.

(president.gov.ua)

Beskyd Railway Tunnel facts

First built in 1886

New double track opened on May 24, 2018

Location: the Carpathian Mountains, on the border of Lviv and Zakarpattia oblasts

Part of the fifth pan-European transport corridor connecting Italy, Slovenia, Hungary, Slovakia and Ukraine.

The second longest railway tunnel in Ukraine after Lutuhynsk tunnel in Russia-occupied Luhansk Oblast.

Length: 1,764.5 meters.

Width: 10.5 meters.

Height: 8.5 meters.

Capacity: 100 trains per day.

Train speed: 60 km/h.

Cost: Hr 2.39 billion (funded by Ukrzaliznytsya, loans from European Investment Bank and European Bank for Reconstruction and Development).

An operator assembles wires at Japanese automotive parts factory Fujikura in Lviv, 540 kilometers west of Kyiv on Feb. 6. The company produces cables for German and Czech car manufacturers like Volkswagen, Audi, Skoda and others. (Volodymyr Petrov)

Diane Francis: If Chicago can defeat corruption, so can Ukrainian capital

DIANE FRANCIS

I'm fully confident that Ukraine will take its place as one of Europe's most important countries because of its splendid resource endowment, talented people, access to Europe, and financial support from the west.

To me, it's not a matter of if, but when.

I first visited Ukraine as a journalist after its independence in 1991 and have watched it slowly get out from under the Soviet boot. To help, a group of us founded the Canadian-Ukraine Chamber of Commerce in 1993 to

encourage trade and investments. In 1986, I became involved in a start-up newspaper in Kyiv with others. But one year later, the newspaper was simply stolen by thugs.

Unfortunately, this was commonplace so many of us sat on the sidelines for a few years. Then a new generation of Ukrainians asserted themselves and after two revolutions — one in 2004 and 2014 — I for one have become an optimist and an activist and an investor again. I'm involved, in a small way, in the IT and agri-business sectors.

Like all revolutions, the Revolution of Dignity led to undesirable knock-on effects such as Russia's surprise invasion in the east. But ironically, this has united Ukrainians unlike before and led to the massive amount of financial help from western countries and institutions that has, and will, underpin the transition and reform efforts by Ukraine's growing civil society.

Still there remain skeptics that any of this will overthrow the kleptocrats. But I disagree. Why? Because I grew up in Chicago which was the most corrupt city in the United States until the 1980s.

Throughout its history, the city was controlled by a political oligarchy where judges could be bought, the mafia operated with impunity, and the political machine extracted huge tributes from businesses and individuals.

One of my earliest memories as a child was that my father, like most, always carried in his wallet a $5 bill beside his driver's license. This was because he was routinely stopped, without justification, by police for fictitious offenses. He would be asked to hand over his license and the cop would take his wallet, remove the $5 bill and hand it back.

Everybody lived with this reality until public opinion — thanks to a lively press and activists — became emboldened enough to reject the systemic corruption. Public outrage brought in the "cavalry" in the form of a bribery-proof federal police and judges and they began to clean out the rot by putting policemen, judges, bureaucrats, gangsters, and politicians in jail.

What I experienced in Chicago has begun to happen in Ukraine. The creation of a new anti-corruption court to bolster the creation last year of Ukraine's "FBI" or the National Anti-Corruption Bureau of Ukraine will do the trick.

What then needs to happen is that a few highly-publicized show trials result in sending a few high-profile "untouchables" to jail. If this happens, the business culture will transform and foreign direct investment will pour in.

There's no guarantee of this yet, but Chicago demonstrates how a jurisdiction can clean up its act no matter how entrenched or long the larceny has lasted. And the most necessary condition has been reached, according to recent polls http://www.intellinews.com/iri-poll-paints-a-pretty-grim-picture-of-life-and-politics-in-ukraine-142083/, in the form of Ukrainian public opinion that is wholeheartedly against corruption and its perpetrators.

Two other good signs are that Ukrainians in the IT and tourism sectors continue to

Workers get a lift to build Chicago, (right) a new apartment development on May 21 in downtown Kyiv. Chicago, which used to be a symbol of corruption in the U.S. until the 1980s, is now a city on the up, with a prospering middle class and rule of law. (Volodymyr Petrov)

build world-beating businesses by navigating around the oligarchs and their politicians; and that foreign investors are tire-kicking and some cautiously taking the plunge, betting on the turnaround.

Western Ukraine is a case in point, close to the European Union and far from Russia's war. The region around Lviv is becoming an auto parts cluster https://economics.unian.info/2158299-foreign-investors-shift-focus-to-western-ukraine-ft.html that has attracted 20 major auto companies employing 40,000 Ukrainians. Tourism also booms.

Of course, investing in Ukraine now and in future is not for the faint of heart, but American venture capitalist Jason Mitura has succeeded and offered some important advice in an interview.

"The biggest barrier to investors was political risk," he said. "The geography is unfamiliar. One British venture capitalist said Kyiv is too far away for us to invest in — Britain is only three hours away by plane — but then there was a guy in LA who said 'let's get on a plane and have a look at this.'"

He said every investor who came to see operations and the culture and country wrote checks.

The other important factor in his success, and that of others, is to operate through a western entity and using western-base contractual agreements, intellectual property laws, financial efforts, or acquisition processes.

"You cannot run a gray market company where you make cash and pay people in cash because when you need institutional capital they won't look at you. You must run the company properly with auditable practices or they will walk away," he advised.

"The macro story of stability/instability in Ukraine can't be controlled, but needs to be front loaded and explained to investors," said Mitura. "It's the first thing anyone asks when they hear about Ukraine. Israel has managed this and I think Ukraine can, too. The history of ups and downs can't be changed, but there's a history of stability and excellence too."

Clearly, Ukraine — the most resource-rich and biggest country in Europe — deserves a look if only because it is on the cusp of a breakthrough into a nation that treats its citizens and investors with respect.

But like investing anywhere, entrepreneurs must adhere to several rules: Choose sectors that have potential but are immune from meddling; choose partners carefully; then watch for positive signals from the IMF, European Union, and World Bank that monitor the country's reform agenda closely and tie their financial aid to deliverables.

And consider as I have, that if Chicago can do it, so can Ukraine.

Diane Francis, a Canadian-American author and journalist, is a non-resident senior fellow at the Atlantic Council.

OECD's Kiviniemi: Ukraine needs to speed up pace of economic change

Mari Kiviniemi, deputy secretary general at the Organization for Economic Co-operation and Development, spoke with the Kyiv Post at the Cabinet of Ministers Club on Institutska Street on June 15. (Oleg Petrasiuk)

BY ILYA TIMTCHENKO
TIMTCHENKO@KYIVPOST.COM

Mari Kiviniemi met with the Kyiv Post on June 15 at the Cabinet of Ministers Club on 7 Institutska Street.

The location was symbolic for what Kiviniemi stands for as the deputy secretary general at the Organization for Economic Cooperation and Development — the fight against corruption and the building of a politically and economically healthy nation with democratic values.

The club is close to the site where 47 Ukrainians were murdered by snipers on Feb. 20, 2014, during protests against former President Viktor Yanukovych's corrupt and Moscow-friendly regime, which stole billions from the country.

"We started cooperation (with Ukraine) already from the 1990s, but really the EuroMaidan (Revolution) events reinforced our willingness, from the organization's side, to support the development of this country," said Kiviniemi, who served as the prime minister of Finland from 2010–2011.

Since the revolution, the OECD has produced a range of reports reviewing key areas for Ukraine to reform. Right now, the organization is concentrating on making sure Ukraine has a more effective and efficient decentralization process, and that government bodies have clear responsibilities, as institutions tend to shift responsibilities back and forth.

"Responsibilities should be clear really, so that everyone knows where the responsibility is, and that is not the case so far," Kiviniemi said.

Ukraine's government still needs to improve its effectiveness, accountability and integrity at all institutional levels from national to local.

And though the government has been boasting that with its decentralization reform, initiated in 2014, local and regional governments now have control over most of their budgets, in reality this is not the case.

"More must be done to build local budgets, because now subnational authorities control only about 30 percent of their revenues, while almost 80 percent of their expenditures are made on their behalf by the central government," Kiviniemi said.

And to achieve this, Ukraine needs the financial resources to keep its government body effective — money that it does not have.

The lack of human resources is another problem, "an enormous challenge at all levels of government here."

Government salaries are low, and those who do have the necessary skills will either find the private sector more financially rewarding or simply move abroad.

Kiviniemi would give a firm answer on whether she sees Ukraine's reforms improving.

"It has been challenging, and in certain areas it has been easier, and in certain not so easy," she said. "But we also want to be an organization that gives a bit of a push, as well as support."

Overall, she sees the country moving in the right direction "but it's very difficult to say if we're now able to speed up, or if we're going into a slower phase."

Part of her visit was to reconfirm OECD's commitment to Ukraine, with both parties resigning a memorandum of understanding first signed in 2014. Kiviniemi sees this as a good signal coming from Ukraine.

Another part of her visit was to launch OECD's 295-page report on Ukraine's decentralization process, which takes a detailed look at progress in Ukraine's regional development, territorial reform and decentralization since 2014. The report can be found at www.oecd.org.

The OECD has also supported the creation of anti-corruption institutions in Ukraine, including the Business Ombudsman Council, the National Anti-Corruption Bureau, and reforms in the civil service, public procurement, and the management of public finances.

"But really, our message is that more needs to be done — there really is room for accelerating the reform process," Kiviniemi said.

This includes increasing the pace of reform of state-owned enterprises, she said.

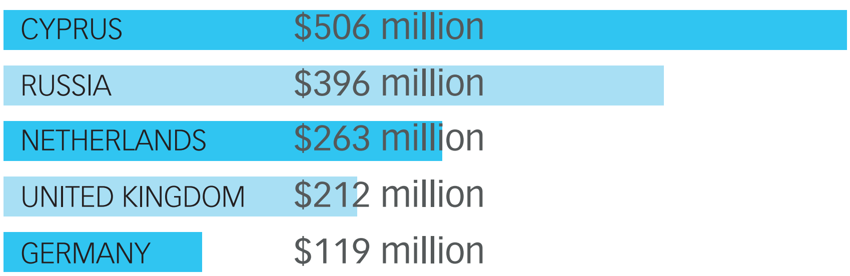
Ukraine's privatization of more than 3,000 state-owned enterprises — many of which are inefficient cash cows for corruption — has been delayed for over three years.

And in addition to battling with a bloated public sector, Kiviniemi says that Ukraine should continue reforming its tax system.

FDI drop in Ukraine

In 2017, Ukraine's economy witnessed its worst year in foreign direct investment since 2014, only attracting $1.9 billion, the State Statistics Service reports. According to the National Bank of Ukraine, the figure is closer to $2.3 billion. In 2014, Ukraine received only $400 million.

The biggest investors



Most foreign direct investment comes to Ukraine from countries known for being hubs of corporate tax avoidance--like Cyprus, the Netherlands, and the United Kingdom. This means investors may well be Ukrainian companies with Ukrainian beneficiaries registered in those jurisdictions.

Source: State Statistics Service, NBU

Gender equality

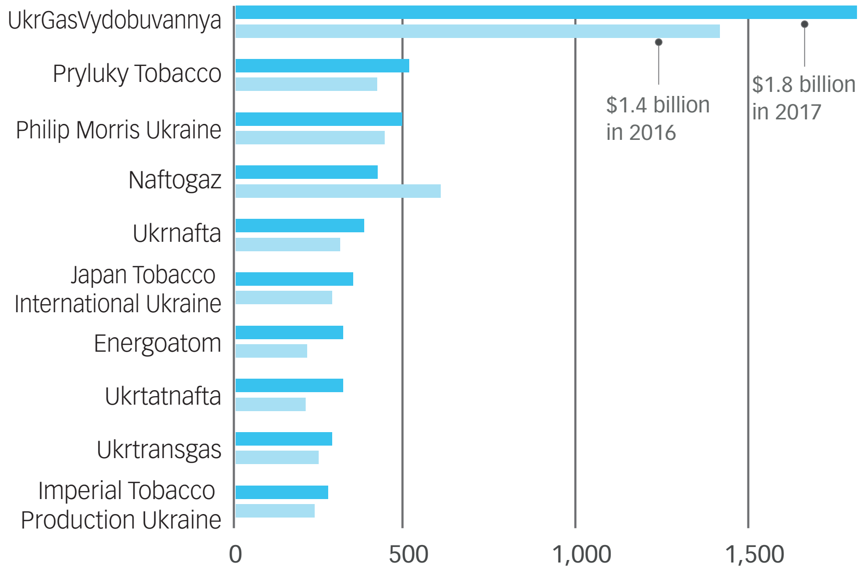
Kivinemi has an impressive background: as well as being Finland's prime minister, she held various ministerial positions. She was elected as a member of parliament for the first time when she was 26. In addition to all of that, she is a mother of two children.

Kiviniemi has also been a strong advocate for equal employment rights between men and women.

"This is actually one of the areas where

Top taxpayers in Ukraine, 2017-2016

in millions of dollars



State energy companies and tobacco firms are Ukraine's top taxpayers. In 2017, the state-owned public joint stock company UkrGasVydobuvannya, Ukraine's largest gas producer, paid Hr 50.4 billion (around $1.8 billion) to the state budget. All top taxpayers paid more in 2017 than in 2016, apart from Naftogaz. The State Fiscal Service reported that 100 large enterprises paid over 70 percent of all tax money going into the national budget last year.

Source: State Fiscal Service *By Yuliana Romanyshyn, Kyiv Post*

Ukrainians line up to receive biometric passports for visa-free travel to the European Union at a passport office in Kyiv on July 20, 2017. Thousands of Ukrainians have applied for the biometric passport as they are hoping to leave Ukraine in search of a better life abroad. (Oleg Petrasiuk)

we would like to support Ukraine's development," she said. "We have many tools also in that area that could be implemented, for example in the public sector."

Kiviniemi comes from a country that has long led the fight for gender equality. In 1906, Finland was the first country to give women the right to vote and stand for public office.

"But it took a long time before Finland reached the 40 percent level of women in parliament," Kiviniemi said.

The figure is about 12 percent in Ukraine.

To improve matters, Ukraine needs to take care of some basic steps. For instance, its government needs to ensure there are good daycare services for children.

However, the general attitude in Ukraine towards women's responsibilities also needs to change, she said. Often, for example, it is assumed that women are the only ones who can and should take care of children. But men should also be eligible for family leave, and not only women, Kiviniemi said.

"But really it's... in the women's hands, in the sense that we have to be active, and we have to stand for office, and we should not think that this isn't something for us to do."

OECD reports have also shown that with more women in government, people trust their governments more, she said. And there's also a tendency for "healthcare and social security services to be better in those countries," Kiviniemi added.

Brain drain

Better living and employment conditions for both women and men would also help Ukraine stop its brain drain — the flight of Ukrainian professionals looking for a better life abroad.

In addition to good social security and healthcare, Ukraine also needs to improve its education, investment climate and governance, "so that people really have the feeling that they can fully make use of all of the potential that they have in their own country."

"Finland was a very poor country 50–60 years ago, after World War II, but it has since become one of the most developed countries in the world," Kiviniemi said.

"It's possible for any country to follow the same path — if you are committed to reforming the country and really putting the right policies in place."

Workers repair the M12 highway in Ternopil Oblast on May 31. (UNIAN)

Ukraine invests in infrastructure with aim to boost EU, China trade

BY BERMET TALANT
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Russia's war in the Donbas and its annexation of Crimea in 2014 disrupted Ukraine's traditional trade links with most former Soviet states. But with old ties fizzling, Ukraine has set its sights on more heavyweight partners — the European Union and China.

Looking west, Ukraine has invested billions to integrate with EU infrastructure. These billions may serve a double purpose, however: They could also secure Ukraine a place in China's flagship infrastructure project, the Belt and Road Initiative.

As a transit country between the world's largest market and its wealthiest one, Ukraine could reap substantial profits. But its infrastructure has to catch up first.

Trading with Europe

Ukraine's reorientation westward was largely catalyzed by Russia's aggression, which deprived Ukraine control over a section of its eastern border and severed longstanding economic ties, both between companies inside Ukraine and between Ukrainian and Russian companies.

Since 2016, the EU has replaced Russia as Ukraine's largest trading partner and

The company ONUR was established in 1981. Originally, the main business aim of the company was to develop transport infrastructure in Turkey.

As of today, the company runs large-scale projects in Turkey, Ukraine, Moldova, Saudi Arabia and the Sultanate of Oman.

In its activities, the company is guided by principles of transparency, high quality work, and zero tolerance of any kind of violations. Another fundamental principle of ONUR's policy is the engagement of a large number of local people and companies in the execution of work during the implementation of projects, thus, providing new jobs in the region.

ONUR has received many of the world's most prestigious awards in the construction sector, and ranked among top 140 international contractors during the period from 2012 to 2017, according to the Global Best Projects Awards founded by the magazine "Engineering News Record" (ENR).

Its competitiveness in tenders, top quality, professional teams, excellent safety records and a proactive approach allow ONUR not just to meet, but to exceed the expectations of its customers.

ONUR GROUP

www.onurgroup.com

investor. Now, the EU accounts for almost half of Ukraine's international trade, with its 2017 political and economic association agreement with Ukraine setting common standards for goods and services.

A symbol of Ukraine's pivot westward is the Beskyd railway tunnel in Ukraine's Carpathian Mountains, construction of which started in 2014.

Opened on May 24 this year, the tunnel is expected to quadruple freight traffic between Ukraine and the EU. Its 1,764-meter long stretch of double track is a part of the pan-European transport network Corridor V, running from Italy to Slovenia, Hungary, Slovakia and now Ukraine.

The tunnel, which cost over $100 million, is the first infrastructure project of such a scale built since Ukraine's independence. President Petro Poroshenko called it a symbol of the country's renovation, which has moved it closer to the EU.

Meanwhile, Ukraine's Infrastructure Ministry recently presented the country's national transport strategy, called "Drive Ukraine 2030," the main focus of which is integrating transportation between Ukraine and the EU to facilitate fast and tax-free trade.

The first section includes five bills aimed at regulating the country's railways, roads, water transportation and freight shipping, whereas the second part concentrates on infrastructure projects in each region.

Although the strategy has not yet been formally adopted by the Cabinet of Ministers, some of its projects are already underway, Deputy Infrastructure Minister Viktor Dovhan told journalists in Odesa on May 30.

Railroads

The opening of the new Beskyd railway tunnel will remove one of Ukraine's major bottlenecks. But Ukraine's railways have other issues: a shortage of rolling stock and pervasive inefficiency.

The rolling stock shortage is partly due to overregulation. The Ukrainian government, several years ago, banned trucks that transport more than 40 tons of freight from driving on highways, trying to reduce the load on Ukraine's crumbling roads. Freight carriers were expected to switch to railroads as an alternative.

But three years since the weight restrictions were put in place, Ukraine's state railroad monopoly Ukrzaliznytsia is still unable to meet shipping needs of exporters, let alone serve the growing demand for transit shipping.

To partially deal with the shortage of locomotives, Ukrzaliznytsia signed a $1 billion deal with US conglomerate General Electric, which will supply 200 locomotives over the next 10 years and set up a service center in Ukraine.

The delivery of the first 30 locomotives is slated for the end of this year. They will be partially assembled at the Kryukiv Railway Car Manufacturing Plant in Poltava Oblast, as envisioned in GE's localization program.

"GE is now continuing to look for a manufacturing base among domestic enterprises," Ukrzaliznytsia head Yevhen Kravtsov said on May 5. "We also plan to open a center for servicing and upgrading the fleet of locomotives."

The state-owned monopoly has another large-scale project that aims to upgrade the 250-kilometer Dolinska-Mykolayiv-Kolosivka railroad section in the south of Ukraine. The route connects agricultural regions in central Ukraine with Black Sea ports. Built using over $300 million in loans, the line will be electrified to lower fuel costs and increase efficiency.

GO Highway

GO Highway is named with the initials of the two cities it is intended to connect - Gdansk in the north of Poland and Odesa in the south of Ukraine. It will also connect two large seaports on the Baltic and Black seas.

Source: Ukravtodor *By Yuliana Romanyshyn, Kyiv Post*

Highways

However, the main priority for Ukraine's government this year is the country's roads, with $1.9 billion allocated to repair the crumbling road network.

Deputy Infrastructure Minister Viktor Dovhan said that weight restrictions on highways could not be in place forever. The solution is to build concrete roads that won't crumble when used by heavy trucks. The first project on the list is a highway to connect the Black Sea ports of Odesa, Mykolayiv, and Kherson.

This year, the government also launched the State Road Fund to guarantee stable and long-term funding of road works, as well as some highway concession projects. Ukraine's road authority Ukravtodor set a goal of repairing a record high of around 4,000 kilometers of roadways in 2018.

Ongoing decentralization reform has

Cargo trains stand at Darnitsya rail depot in Kyiv on May 30, 2017. The state railway monopoly Ukrzaliznytsia has been struggling to meet shipping needs due to shortage of rolling stock. Kostyantyn Chernichkin. (Kostyantyn Chernichkin)

meant Ukravtodor is now only responsible for 47,000 kilometers of major highways. The other 70 percent of the road network is managed at the regional and municipal levels, and they have the autonomy to decide which roads to fix first.

As with railroads, European integration is a priority.

Ukravtodor is focusing on "Go Highway," a 1,746-kilometer road project to connect the port cities of Odesa and Mykolayiv with Poland. The government has already allotted Hr 4.8 billion ($183 million) for the project and is seeking an additional 400 million euros in loans.

Transit

As part of its economic war against Ukraine, in 2016, the Kremlin imposed a transit ban on Ukrainian goods through its territory. This cut Ukraine's exports to Central Asia by almost half.

Despite this, Ukraine has not given up on plans to become part of The Belt and Road Initiative, China's flagship infrastructure project, which seeks to link Asia, Europe, and Africa through a network of roads, railways, sea routes, and pipelines.

Ukrainian exporters have found other routes, like the sea and land route via Georgia and Azerbaijan to the Kazakh port of Aktau.

However, Andrey Isayev, an expert at the Center for Transport Strategies, a Kyiv-based consultancy firm, says that currently Ukraine is losing the competition to be a transit route for Chinese goods to other more attractive options.

"The overland transit through Russia is faster and cheaper," Isayev said. "Sea routes to the Mediterranean sea ports or northern European ports are cheaper too. Those are long-established routes, while Ukraine still has to develop one. and attract freight traffic. The Ministry of Infrastructure tried to do so but hasn't succeeded yet."

Ukraine currently ranks 80th out of 160 countries in the World Bank's Logistics Performance Index, says Isayev.

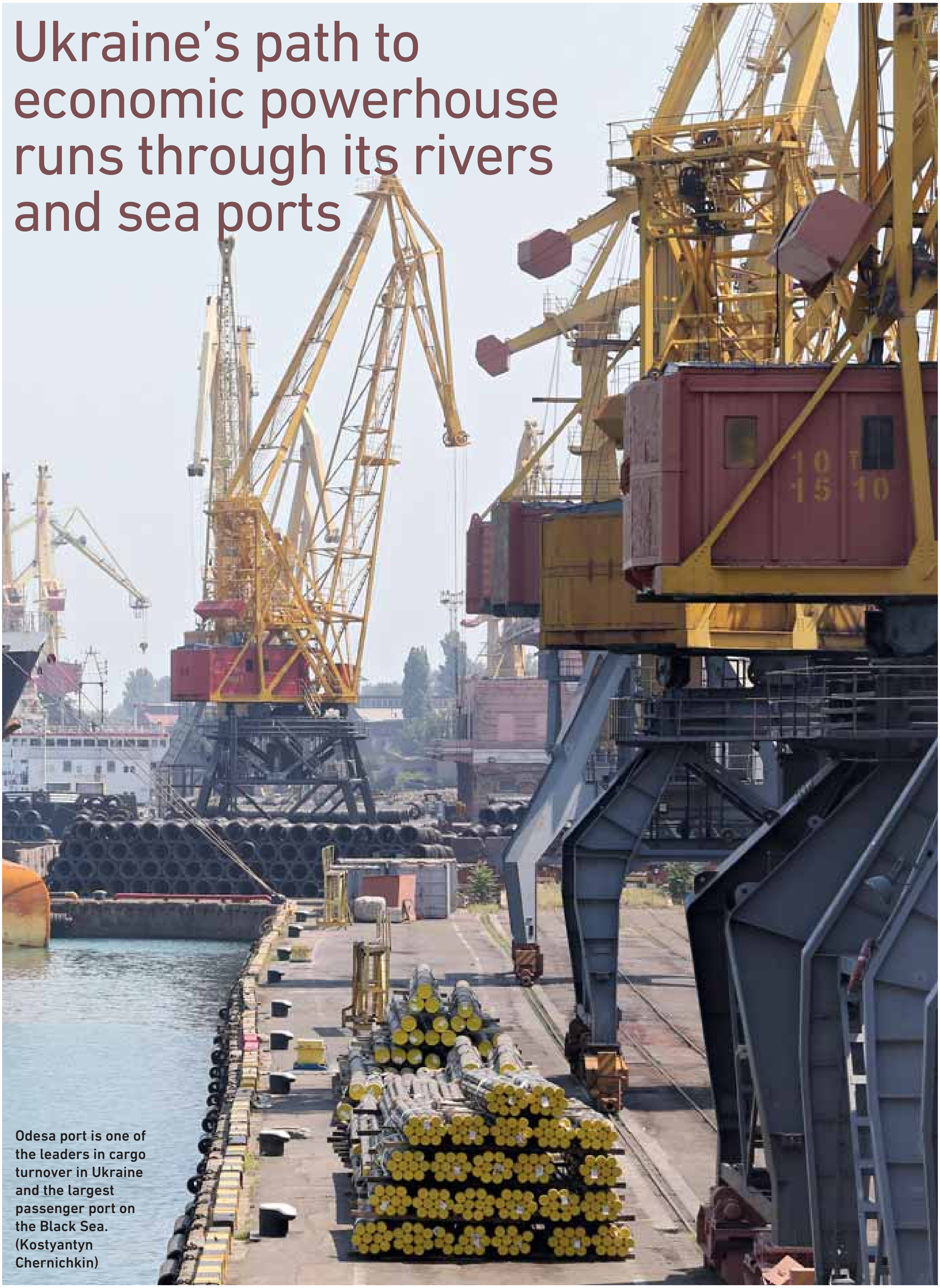
"That is not a good rank," Isayev said. "Besides improving infrastructure there are other, less expensive but just as effective measures. For example: imposing a single tariff for freight transit through Ukrainian territory regardless of the mode of transport; simplifying the registration of cargo and the time required to do it; improving the safety of shipping, and building roadside infrastructure."

In a bid to develop the existing transport corridor from Ukraine through Georgia and Azerbaijan to Kazakhstan, the state railway authorities of Ukraine, Georgia and Azerbaijan signed a memorandum last year to launch a train-ferry link.

Train ferries across the Black and Caspian seas would link the railways of three countries and increase trade volumes.

But exactly when the new link will be up and running, however, it is still unknown.

Ukraine's path to economic powerhouse runs through its rivers and sea ports



Odesa port is one of the leaders in cargo turnover in Ukraine and the largest passenger port on the Black Sea. (Kostyantyn Chernichkin)

BY NATALIA DATSKEVYCH
DATSKEVYCH@KYIVPOST.COM

In terms of seaports and natural waterways, not many countries are as blessed as Ukraine.

The Dnipro River — fourth longest in Europe — bisects the country, meandering far into the east before looping back west to spill into the Black Sea. Four out of the European Union's 10 international transport corridors, as designated by the European Commission, pass through Ukraine.

The country's seaports are favorably located at the crossroads between Europe and Asia, with access to both the Black Sea and a 2,100-kilometer river system.

But despite these advantages, Ukraine's water transportation — like almost every other economic sector — has been badly neglected since Ukraine became independent. Without investment, its sea exports are lagging and its rivers carry only a trickle of its growing grain production.

Though Ukraine's government has put forward an investment plan to pump life back into Ukraine's ports, critics cast doubt on its feasibility. Meanwhile, Russian aggression and perennial corruption concerns continue to suck profits from the nation's grain producers and shippers.

Investment for trade

Altogether, Ukraine has 18 seaports, five of which are in Russian-occupied Crimea.

The remaining 13, located on Ukraine's mainland, are operational. But together they processed only 132.5 million tons of cargo in 2017, just 1.2 million more than in 2016, according to the Ukrainian Sea Ports Authority.

The marginal growth isn't from exports. Exports through seaports have been slowly decreasing in Ukraine, dropping by 6 percent over the past three years to 98.5 million tons in 2017, most of which was raw materials, like grain.

But imports are growing, reaching 20.4 million tons in 2017 — a 22 percent increase compared to the previous year.

To boost trade, Ukraine's government plans to invest Hr 44 billion, or $1.7 billion, into its seaport infrastructure over the next 12 years, according to Deputy Prime Minister Volodymyr Kistion, who spoke at a ports forum in Odesa on May 31.

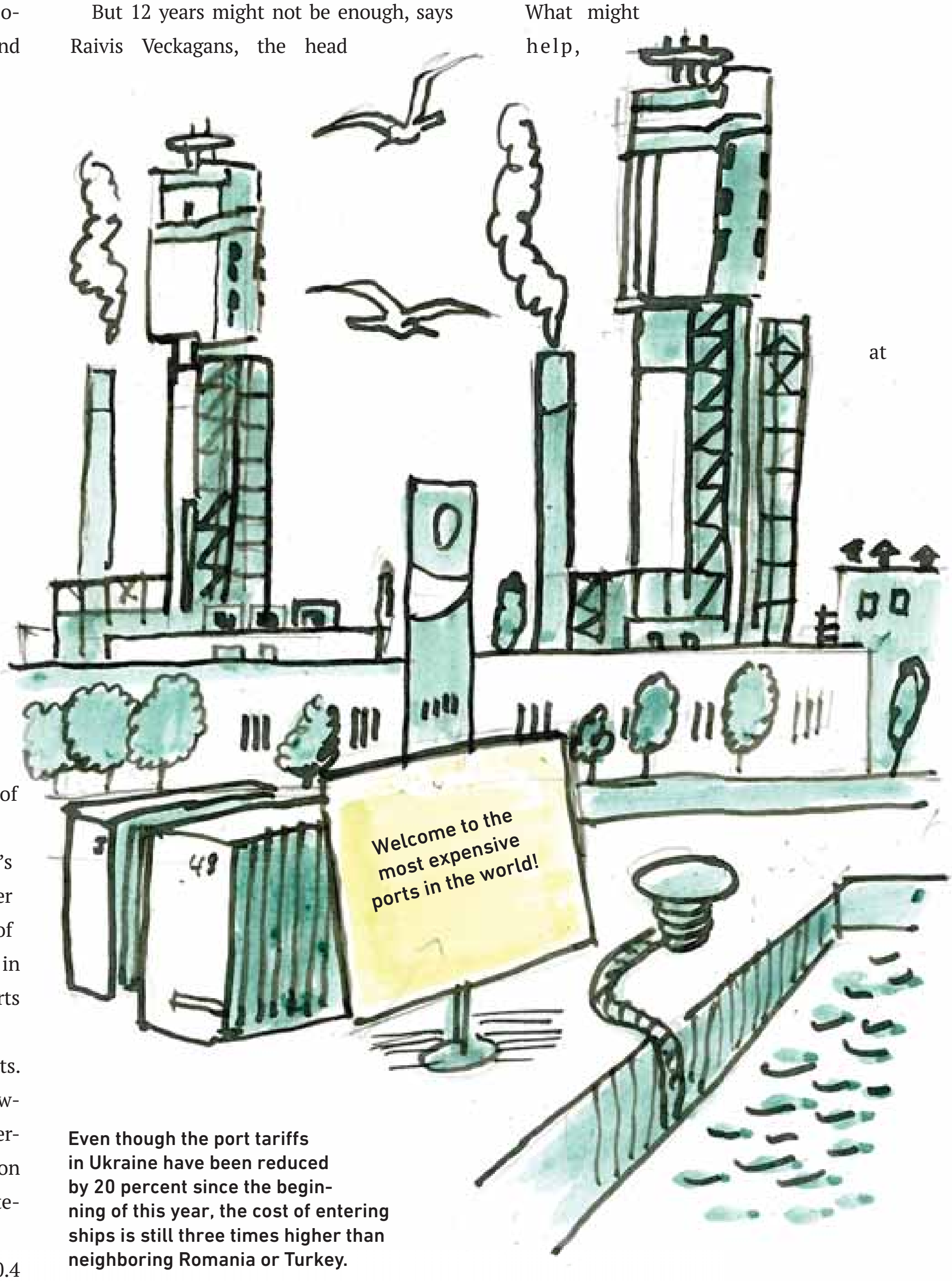
The 12-year plan includes 46 projects to upgrade Ukraine's seaports, among them construction of new stevedoring terminals and berths, and the repair of old ones.

But 12 years might not be enough, says Raivis Veckagans, the head of the Ukrainian Sea Ports Authority. Realistically, the upgrades will take more like 20 years, given Ukraine's lack of equipment and difficulties with implementing EU standards.

This is bad news, as Ukraine's growing agricultural economy depends on efficient exports.

"Ports drive the economy, because they're the gates for exports," Veckagans said. "In Ukraine, 66 percent of exports go through sea ports."

What might help, at



Even though the port tariffs in Ukraine have been reduced by 20 percent since the beginning of this year, the cost of entering ships is still three times higher than neighboring Romania or Turkey.

least in terms of efficiency, says Veckagans, is the increasing share of privately owned port operators. Currently, just 13 out of the 103 seaport operators are state-owned, a 12 percent decrease compared to 2013.

"Our main target is to maintain efficient use of the seaports with the stevedoring business transitioning from state-owned to private," Veckagans said.

Dire straits

The main share of Ukraine's cargo is processed by four Ukrainian seaports — Odesa Sea Port, Yuzhny, Mykolaiv Sea Port and the Port of Chornomorsk. Last year they handled 80 percent of total cargo turnover, or 107 million tons.

The leader was Yuzhny, located 30 kilometers east of the city of Odesa. Its share was more than 30 percent. Odesa Sea Port and Mykolaiv Sea Port accounted for about 20 percent, or 24 million tons each.

Ihor Tkachuk, head of Odesa Sea Port, declined to show profit figures, but said the port is making money, handling about 500 thousand containers in 2017, which was a ten percent increase over 2016.

"The port has never been unprofitable and will never be, although volumes fell compared to 2010 due to the annexation of Crimea and occupation of the eastern Donbas," he said.

But outside of these top four ports, conditions are worse. Reni Sea Port, for example, close to Ukraine's border with Romania, handled only 200,000 tons last year. Twenty-five years ago, that figure was 10 million tons per year.

The government is planning to come to Reni Sea Port's aid, setting up a special economic zone with low taxes for ships, said Maxim Stepanov, the governor of Odesa Oblast.

According to the draft law, Reni Sea Port will have a three-stage tax system: for the first three years after the law is passed, ships will pay no taxes on profit at all, for the next three years they are to pay half of today's current 15 percent profit tax rate, and only after six years are they to pay full taxes.

But Reni Sea Port is not in the worst state of Ukraine's sea ports. Skadovsk Commercial Sea Port, located in Kherson Oblast, is silting up and is now almost unusable, with no funds allocated for dredging it.

"Skadovsk sea port is a port that is simply standing still," Alexander Varvarenko, CEO of Varamar shipping company, told the Kyiv Post.

"No more money is allocated for dredging. Previously, there was a ferry line that brought life to the whole city. There was even a grain terminal."

The port handled only 20,000 tons of cargo last year, 36 percent less than in 2016.

For such cases, the government thinks it might have a solution: privatize the whole port or put it under concession, allowing foreign companies to operate it, modernize it, and collect profit, while its underlying assets would remain state-owned.

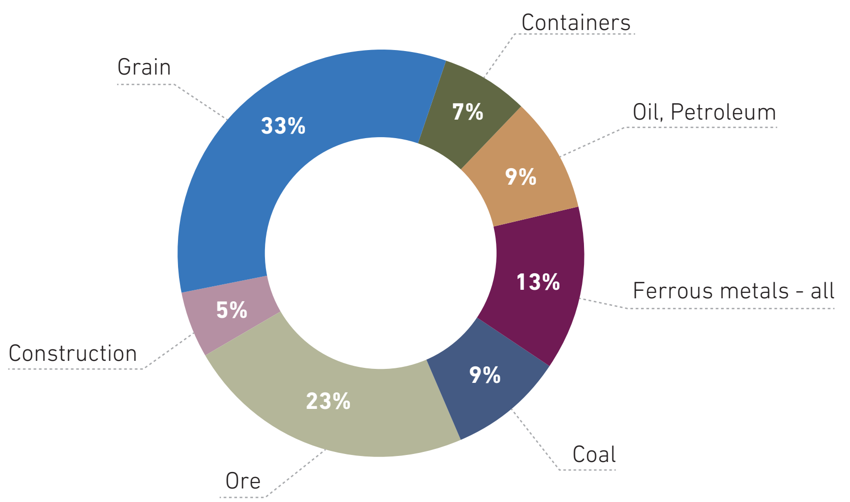
Two feasibility studies for possible concessions have been completed already, at Port Olvia and Port Kherson. Two more are underway for Chornomorsk and Port Yuzhny, said Veckagans.

River neglect

Meanwhile, although there is a government plan in place for revitalizing the sea ports, less is being done to upgrade the country's river infrastructure.

The majority of Ukraine's river ports are out of shape, according to Ukraine's

Ukraine's seaport freight turnover in 2017



Source: Ukrainian Sea Ports Authority

Grain makes up a third of Ukraine's overall freight turnover that goes through sea ports while ore makes up almost one quarter. Overall, the freight turnover is increasing at a steady rate.

Infrastructure Ministry.

Currently Ukrainian river infrastructure covers 18 ports (including terminals) on the Dnipro River, six of which are reloading terminals privately owned by Nibulon, one of Ukraine's largest grain exporters, which transports its grain via the Dnipro River.

Like Port Kherson, the main problem that river ports face is a lack of dredging, which would increase freight turnover and river traffic.

Far behind

Aside from bad infrastructure, Ukrainian ports are beset with a host of petty problems: extremely high port fees and tariffs, poor cargo handling, and corrupt ecological inspectors.

Its infrastructure is rated 96th on the World Bank's index of quality seaports — right around Lebanon, Bangladesh, and Mozambique.

However, says Varvarenko, "Ukrainian ports are the most expensive in the world. The way they charge is very outdated, and even though fees were reduced by 20 percent, the fee is still three times more expensive than at ports in other countries," Varvarenko said.

But perhaps even a bigger problem for business people are corrupt ecological inspectors that unfairly fine companies.

"Ukraine has a non-transparent environmental inspection system," said Andriy Smirnov, head of seaborne shipments at Metinvest steel and mining company. "The fine for each ship exceeds Hr 10,000–20,000 ($380–760)."

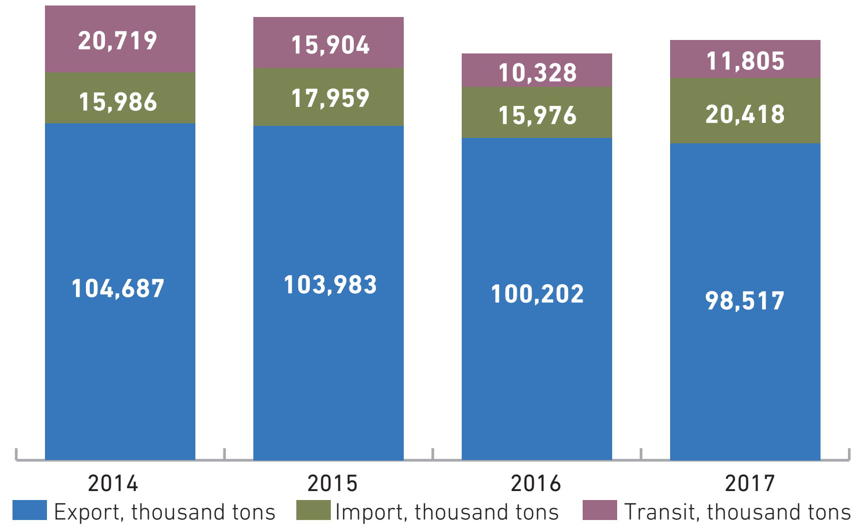
Suguru Uchida, director of NYK Bulkship (Atlantic), a subsidiary of the largest Japanese shipping company, which is part of the Mitsubishi Group, agrees.

Uchida's company has been made to pay ecological fines in Ukraine, but never been told why by the authorities. Company representatives said they did not understand why their new ships, two years old at most, can't meet Ukrainian standards when they had no problems docking in the Netherlands, United States and Japan — countries with higher ecological standards.

"They are trying all kinds of ways to make us pay. It's not a very big amount for the company, but we still don't want to pay," Uchida said.

"The authorities are saying that everything is fine, but from our point of view it's not."

Ukraine's seaport freight imports and exports



Source: Ukrainian Sea Ports Authority

Most of Ukraine's seaport freight turnover is driven by exports of raw materials as the country is still producing very little finished goods that bring more added value to the producer.

River and seaports in Ukraine

After Russia annexed Crimea in March 2014, Ukraine lost access to some of its largest seaports whereas today most of the port activity takes place in Odesa. The main share of Ukraine's cargo is processed by four Ukrainian seaports — Odesa Sea Port, Yuzhny, Mykolaiv Sea Port and the Port of Chornomorsk – handling 80 percent of total cargo turnover, or 107 million tons.

Source: www. investinports.com, www.uspa.gov.ua

The premium segment of trucks sales doubled in 2017 compared to 2011 as business warmed up to making long-term investment. (Courtesy of MAN Truck & Bus Ukraine)

Ukraine's truck market rolls toward recovery

BY NATALIA DATSKEVYCH
DATSKEVYCH@KYIVPOST.COM

Ukraine's truck market, which took a hit four years ago during the country's economic crisis, is now rolling toward recovery, say experts, with sales finally nearing pre-crisis levels.

But although trucking is on the upswing, demand has evolved, with transportation businesses making more strategic decisions about their assets and investments. Meanwhile, bad infrastructure and a worn and pitted road network have made it difficult for Ukraine's transport sector to fully lift itself out of the rut.

In 2011, Ukraine's truck sales reached 5,000 per year, according to AutoConsulting informational and analytical group. Then came Russia's war against Ukraine in the wake of the EuroMaidan Revolution that on Feb. 22, 2014 ousted President Viktor Yanukovych, whose inner circle stole billions of dollars from the country and pushed it into economic crisis.

MAN Truck & Bus in Ukraine

MAN Truck & Bus is one of the leading European commercial vehicle manufacturers and transport solution providers. It was over 100 years ago that the company, which belongs to the Volkswagen Group, began production of the first trucks and coaches. In 2018, MAN Truck & Bus had more than 35,000 employees worldwide, sold 85,000 vehicles and generated 9 billion euros in revenue. Its product portfolio includes vans, trucks, buses/coaches and diesel and gas engines, along with services relating to passenger and cargo transport.

SITES ON SEVERAL CONTINENTS

With the introduction of the MAN TGE van in the autumn of 2016, MAN expanded its product range and is now a full-range supplier, covering all weight classes. The products range from the vans with a gross weight of 3.0 to 5.5 tonnes, through trucks with a gross weight of 7.49 to 44 tonnes, to heavy special purpose vehicles with a gross train weight of up to 250 tonnes. The company also produces city buses, intercity buses, coaches and bus chassis for the MAN brand, and luxury coaches for the NEOPLAN brand. The product portfolio also includes industrial engines for marine, on-road and off-road applications and a comprehensive range of services linked to mobility. In Germany, the company runs production sites in Munich and Nuremburg, together with its component manufacturing and logistics site in Salzgitter. In addition, it implements special customer requests at its Truck Modification Centres in Wittlich, Steyr and Munich and its Bus Modification Centre in Plauen. It also has additional manufacturing sites in Steyr (Austria), St Petersburg (Russia) and Starachowice and Cracow (Poland). Further afield, it operates production sites in Ankara (Turkey), Pithampur (India) and the South African cities of Olifantsfontein and Pinetown.

BROAD RANGE OF TRUCKS

The MAN truck programme ranges from the TGL (7.49 to 12 tonnes) to the medium series TGM (12 to 26 tonnes) through to the TGS and TGX series with permissible gross weights of 18 to 44 tonnes. TGS is a series of robust trucks with a permitted gross vehicle weight of 18 to 41 tonnes designed for export markets, specifically Russia, Asia and Africa. In India, MAN manufactures trucks in the CLA series covering the 16 to 49-tonne weight category. MAN produces heavy trucks in Munich, Cracow, St. Petersburg, Pinetown as well as Pithampur (MAN CLA). The light and medium series are manufactured in Steyr.

MAN AND NEOPLAN BUSES

The products of the MAN and NEOPLAN bus brands include coaches, intercity buses, city buses and bus chassis. The diversified MAN range of city and intercity buses and coaches is primarily geared towards companies focused on operating efficiency. With its exclusive touring coaches, NEOPLAN caters primarily for customers wishing to turn the journeys of their VIP passengers into a luxurious travel experience. MAN and NEOPLAN brand coaches are produced in Ankara, while the plant in Starachowice turns out city buses and bus chassis.

EXTENSIVE PORTFOLIO OF SERVICES

MAN Truck & Bus provides customers with a flexible range of services. Whether you are interested in service and repair contracts, fleet management, driver training or financing solutions, MAN combines top-notch technology with services tailored to the user's requirements.
MAN and NEOPLAN customers have worldwide access to over 1,750 centres for service, vehicle maintenance and repair. MAN Mobile24 guarantees reliable assistance in the event of breakdown – 24 hours a day, 365 days a year.

LEADING POSITION IN UKRAINE

2007 became a landmark for MAN in Ukraine, as an import agreement was signed between representatives of MAN Nutzfahrzeuge AG and MAN Truck & Bus Ukraine LLC, which, in this way, gained all rights and powers of the MAN partner in Ukraine.
The signed agreement has become one of the important steps of the company to strengthen one of the leading positions in the market of truck motor vehicles in Ukraine.

In the sales department you will always be provided with qualified advice and pick up a vehicle that meets all customer requirements.
The sale is made from a warehouse in Kyiv and on request. You will be offered a choice of different financing schemes that are in the best interests of the buyer.
In case of repairs, the service department will assist you as soon as possible. MAN's affiliate network covers the need for service in the largest regions of Ukraine.
Every year on the map of Ukraine there are new technical assistance points. Certification of vehicles in Ukraine is dealt with by the service department.
Creating the own spare parts allows you to improve the provision of customers and dealers with spare parts and components.

MAN Truck & Bus Ukraine LLC, Chaiky, V. Chaiky Str. 16, BC "UTA Service", 8th floor, 08135, Kyiv Region, Ukraine, info.ua@man.eu, tel.:+380 44 391 33 00

WWW.MAN.EU

By 2015 the truck sales market had plummeted to about 1,400 units annually. But last year the market made it back to 3,500 new trucks — an 80 percent increase on 2016 — despite fears of economic instability

But purchasing decisions have changed. Companies in Ukraine are starting to switch to more durable Western trucks, which are far more expensive than post-Soviet brands. These high-quality trucks, known as premium trucks within the industry, are mostly made by the seven biggest European truck companies — Scania, MAN, Mercedes-Benz, Volvo, Renault, DAF, and Iveco.

Back in 2011, the premium segment accounted for only 25 percent of the market, or 1,256 units. Last year, this segment had doubled, reaching half of the sales market in Ukraine.

Most say that what drives this growth is a growing understanding of the advantages of a good truck.

For the past few years, businesses have been thinking longer-term, considering not just the sticker price of the vehicle, but also future fuel and repair expenses, as well as the depreciation value of trucks.

"If you buy a MAN truck for 100,000 euros, then in five years it can be sold for 40,000–50,000 euros. If you take a post-Soviet truck that costs 60,000 euros, then after five years it has no value," Oleksandr Ostapovych, commercial director of MAN Truck&Bus Ukraine, said. "It will just be scrap metal."

In 2017, MAN sold 512 trucks in Ukraine, 60 percent more than last year, and taking a 14-percent share of the market. In turn, last year Mercedes-Benz sold 290 trucks in Ukraine, five times more than in 2015.

And the same positive trends are seen at Swedish truck company Scania: In 2017, it sold 330 trucks for more than $40 million, which was a 93 percent increase compared to the previous year.

Oleksandr Ostapovych, commercial director of MAN Truck & Bus Ukraine

Håkan Jyde, the managing director for Scania Ukraine, said that the company was expanding its operations in Ukraine.

"In 2017 we opened new service stations in Poltava, Vinnytsia and Mukachevo, and since the beginning of 2018 we've been operating a new dealership of our own in the city of Kramatorsk," Jyde said.

"We do expect moderate growth in the market for heavy vehicles" this year as well, he said.

Another reason for energetic truck sales is the European Union's environmental standards, which require trucks to have specific emissions standards, such as the Euro 6 standard.

Trucks in Ukraine have to comply with these standards by 2020 as part of the country's political-economic association agreement with the EU.

But Ostapovych says that many Ukrainian truck owners can buy such certificates by paying bribes to local environmental regulators. For example, he says, statistics on trucks that are currently switching from the Euro 2 standard to the Euro 5 "are massively falsified, and the number of imported, commercial, used vehicles from the EU this year will be about 12,000–13,000."

Road construction

For a big country like Ukraine, which has a vast network of 170,000 kilometers of roads, the size of the truck market is still well below its potential.

"In Europe, these figures are ten times more," said Yaroslav Prygara, CEO of Mercedes-Benz in Ukraine.

In general, the transportation business depends directly on the economic health of a country — if markets grow then the demand for trucks grows.

"When the economy works there is a growing demand for transportation and for new vehicles," said Yurii Antoniuk, a sales representative for Volvo's truck segment.

Another reason why truck sales went up is linked to road construction development, as the government has allocated $1.8 billion to upgrading road infrastructure this year. Road construction companies use trucks to transport a lot of equipment, driving up demand.

"After 2013, there were practically no road builders, while this year we sold them everything we had," Ostapovych said.

But while truck sellers are running out of supply, their customers are running out of qualified drivers as more of them are moving to Poland where salaries are several times higher than in Ukraine.

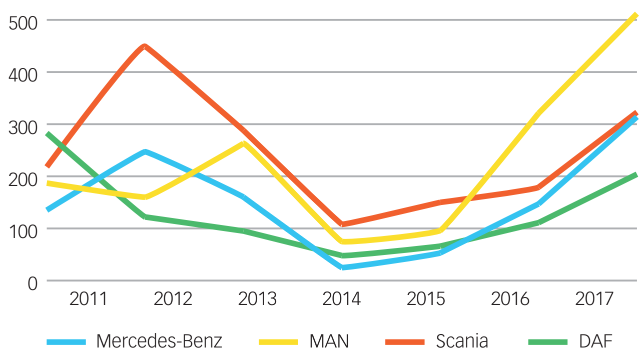
"If before it was alarming, now it's a massive story," said Prygara.

And Ukraine's roads are still in dire condition, which is continuing to act as a brake on truck sales.

"More than half of our service center calls are related to a chassis breaking," Antoniuk said. "This significantly affects demand, as customers are not prepared to buy a new vehicle and then destroy it on our roads."

Sales of trucks in Ukraine, 2011-2017

number of trucks



After a major plummet during the 2014-2015 political-economic crisis, truck sales in Ukraine increased for all leading brands especially for German MAN which sold some 512 trucks in 2017.

Source: AutoConsulting analytical group

A tractor from the Kharkiv Tractor Plant tills a field. The factory's primary clients are agricultural producers with between 400 and 2,000 hectares of land and farmers in the developing world. (Courtesy)

What sidelined the Kharkiv Tractor Plant?

BY MATTHEW KUPFER
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KHARKIV, Ukraine — From March 2016 until January 2017, the Kharkiv Tractor Plant was forced to freeze its operations. For those 10 months, over 2,000 people were left without work.

But the nearly year-long shutdown was not about technical capabilities, nor exclusively financial concerns. Rather, an exceedingly complicated mix of politics, cross-border affairs and legal issues surrounding alleged outstanding debts sidelined the factory. Soon the Pension Fund, the Fiscal Service and even the Security Service of Ukraine, or SBU, were involved.

With allegations of Russian schemes and tax avoidance flying, the case provided an example of some of the "non-market"

Andriy Koval (L), director of the Kharkiv Tractor Plant, poses with one of his factory's machines at an exhibition. (Courtesy)

barriers to business that at times emerge in Ukraine.

What happened

In March and April 2016, the SBU carried out four searches of the factory and seized financial documents, then owner Siegfried Wolf said in a press release at the time.

"No accusations related to the alleged economic crimes have been made so far," Wolf stated.

An Austrian businessman, Wolf is regarded as a top manager for Russian oligarch Oleg Deripaska, who was widely considered the plant's true beneficiary.

In the same document, Wolf announced that Kharkiv magnate Oleksandr Yaroslavsky had agreed to "become a shareholder of [the Kharkiv Tractor Factory] again when my Ukrainian assets are under threat."

In practice, this meant that Yaroslavsky purchased a controlling share of the plant. In an interview with the MediaPort website, he stressed that Deripaska had no ties to the enterprise.

"Deripaska has a 0.0 [percent share]," Yaroslavsky said. "I have 62.44 [percent], and the rest belongs to an Austrian investor."

The sale was perceived in some quarters as a move by Yaroslavsky to help Deripaska, believed to be his friend. But Yaroslavsky denies this.

"As a businessman, I'm only interested in business," he told the Kyiv Post. "If it wasn't profitable, I wouldn't have bought it."

The sale was a logical move to save the Kharkiv Tractor Plant, since the state pressure appeared to be political and connected to the company's ownership.

However, it failed to halt the scandal. Soon the State Fiscal Service had all of the tractor plant's bank accounts and property frozen over a longstanding loan to the enterprise. The Pension Fund also laid claim to money it said the tractor factory owed. All this de facto halted the factory's operations.

On June 4, 2016, the SBU press service announced it had interrupted plans to transport unique equipment and documentation from the plant onto Russian territory. However, that statement later disappeared from the SBU website, Leviy Bereg news agency reported.

The SBU also added plant director Andriy Koval to the wanted list. That move was strange, according to Yaroslavsky.

"Koval started working in the beginning of March, I think March 10, and on March 14, they opened the criminal case," he told MediaPort. "Well what did he manage to do in four days?"

Koval, who remains director today, denies that the narrative of the former Russian owner attempting to destroy the factory has any truth to it.

"Everything related to anti-Ukrainian or anti-[tractor plant] activities is total nonsense," he told the Kyiv Post. "We were always oriented on business and developing the factory."

How it ended

The difficulties dragged on until January 2017, when the plant was able to restart operations and Koval returned to his office. Exactly how this came to pass is not entirely clear.

Much happened behind the scenes and in court. In July 2017, an economic court approved debt restructuring for the plant. In August, another court removed the asset freeze imposed as part of the SBU investigation. This allowed preparations to relaunch operations to begin.

And in early February, a Kharkiv court ruled in favor of the tractor plant and finally cancelled the freeze on the rest of the enterprise's assets.

But political support played a clear role.

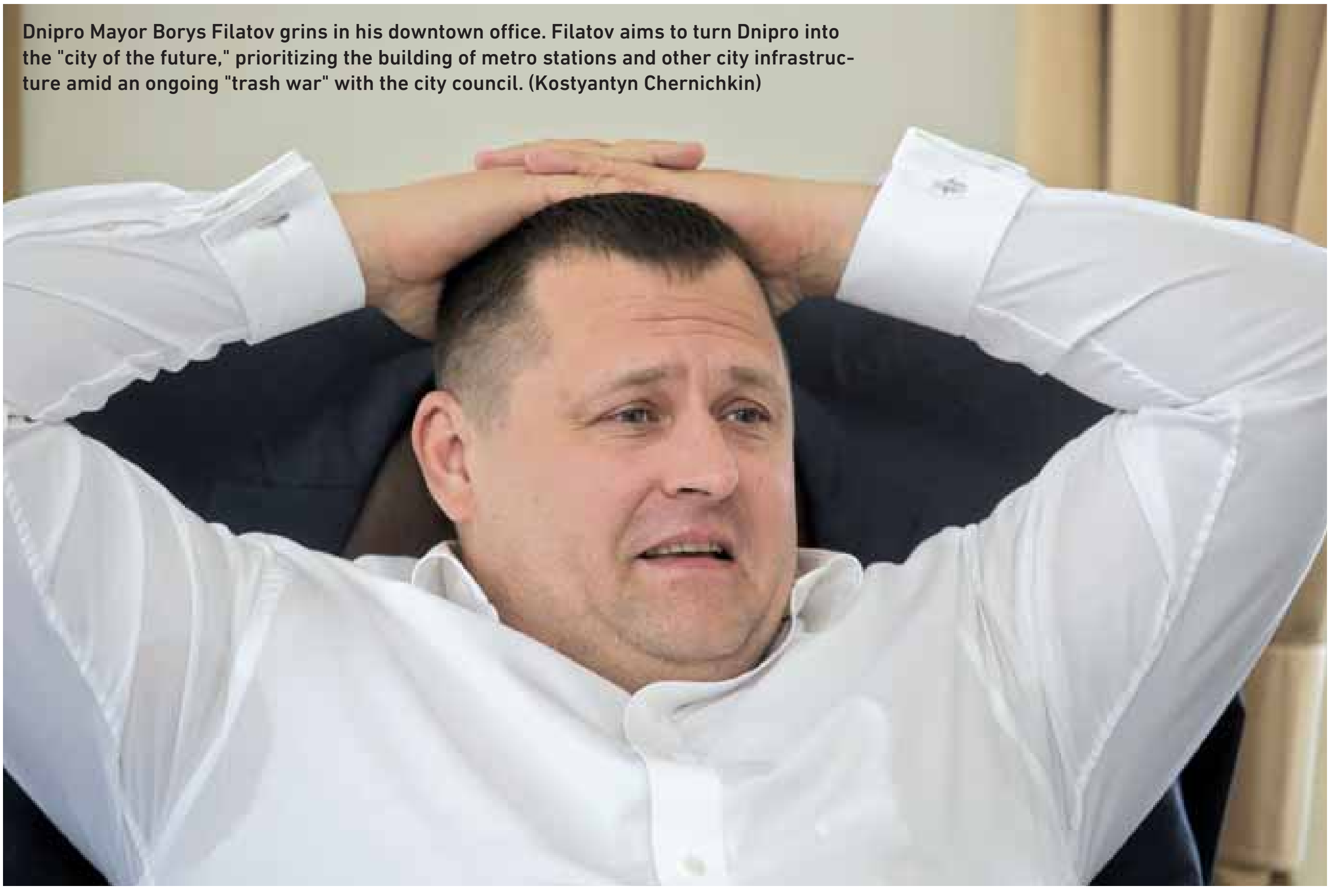
Kharkiv regional governor Yulia Svitlychna announced the factory was relaunching operations in January, and stressed that President Petro Poroshenko took a personal role in the process.

Now, the Kharkiv Tractor Factory is back to work, but the ten-month standstill remains an uncomfortable subject. "It's a difficult question connected to politics and misunderstanding," Koval said.

In an interview with the Kyiv Post, owner Yaroslavsky claimed not to understand what had led to the investigation, court cases, and pressure.

"Ten thousand Kharkiv residents don't care who the plant belonged or belongs to. They need to come to the functioning plant, work, get their salaries, feed their children," he said, referring to both the plant's employees and family members. "That's my goal and task."

"I'm not an investigator or a prosecutor. My job is to turn a non-working plant into a working one."



Dnipro Mayor Borys Filatov grins in his downtown office. Filatov aims to turn Dnipro into the "city of the future," prioritizing the building of metro stations and other city infrastructure amid an ongoing "trash war" with the city council. (Kostyantyn Chernichkin)

Filatov plans to make Dnipro great again

BY JOSH KOVENSKY
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DNIPRO, Ukraine — This city of 976,500, 391 kilometers southeast of Kyiv, is the birthplace of the mixture of capitalism and political clout that characterizes Ukraine.

Thanks to its big businesses and big fraudsters — state-owned PrivatBank, national discount supermarket network ATB, and Victor Pinchuk's steel mill, Interpipe — the city has grown wealthy over 25 years of independence.

With 10 percent of Ukraine's gross national product and $3.2 billion in annual trade — according to statistics from the mayor's office — Dnipro is a powerhouse of the Ukrainian economy.

"I'm the mayor of a million-person city, and I need to remain friends with everyone," says Mayor Borys Filatov, himself a multi-millionaire. "But not because I'm scared."

Filatov has a plan to turn Dnipro into "the city of the future."

In his view, that means a Sotheby's-curated modern art museum on the level of the Bilbao Guggenheim. He claims to be in talks with the Zaha Hadid's project office to design stations for the city's metro, which has been under construction since the era of Soviet leader Leonid Brezhnev.

Filatov says he's gotten inspiration from his unofficial advisor and close friend

Gennadiy Korban, who has echoed Filatov's plans in interviews with local media.

Korban, a longtime corporate raider who has branded himself a "conflictologist" and "specialist on hostile acquisitions," returned to Dnipro in December 2017 after he was arrested on corruption charges in a dramatic 2015 raid by Ukraine's SBU.

"He's a very creative person, he loves this city, and he knows it, and so he's a visionary," Filatov said of Korban. "If out of these 100 meetings 99 don't produce a result, but one does give a result, then I will conduct 100 meetings," Filatov says, before citing the Gospel of Matthew: "Because, as is written in Scripture, 'knock, and the door will be opened to you'."

Money and influence

To cut a deal in Dnipro, Filatov is the man to meet.

The city is looking to attract foreign investors and to bring in more cash from Kyiv, thanks to the ongoing process of decentralization, whereby more powers and budgetary funds are delegated to local authorities.

Filatov is willing to talk the talk on foreign investment: "To attract foreign investment, we first need equal and clear rules of the game for everyone," he says. "So transparent, open, and equal for all."

Chinese investors plan to build a solar plant in Dnipro, while the city is in talks with French company Ribour Participations over building another. Filatov also hopes that Japanese aid agency JACA will finance a trash-burning factory on the town's outskirts, claiming that Japanese elites "perceive me as a friend of Japan."

But Filatov argues that historically, thanks to Dnipro being a closed city for much of the Soviet period, due to its status as the Soviet Union's "rocket capital," the population looks inward.

"We have an ancestral trauma in our city," he says, noting the highly chequered figures who have come from the nation: Ukrainian Communist Party leader Volodymyr Shcherbytsky, Soviet Premier Leonid Brezhnev, Ukrainian President Leonid Kuchma, billionaire oligarch Victor Pinchuk, Batkivschyna presidential candidate Yulia Tymoshenko, billionaire oligarch Ihor Kolomoisky, National Security and Defense Council chief Oleksandr Turchynov, businessman Sergiy Tigipko, ex-Prime Minister Valeriy Pustovoitenko, ex-Prime Minister Pavlo Lazarenko.

"That's 10 already," Filatov said, puffing on a cigarette in his office. "And not one of them did anything for the city."

Filatov said that he would change this, promising that certain oligarchs — like Kharkiv businessman Oleksandr Yaroslavsky — would help the city by undertaking massive infrastructure projects, like refurbishing Dnipro's airport.

"We're trying to get big business to do social projects," he says. "From DTEK, installing lighting in the central park, for example. I said to them: you think you're a socially responsible company? Then hand over the money."

Decentralization

But what of Kolomoisky, the oligarch with whom Filatov has had the closest ties?

"We've haven't talked for more than a year," he says. "The wars for Ukrnafta or PrivatBank aren't my wars."

Filatov suggested he would support the Presidential Administration in the upcoming 2019 elections, although not the president directly.

"I will support the policy of the president on decentralization," he said. "Candidates should go out and say if they are for or against local government. A politician at the national level who goes out and says, 'I will do this and that for Dnipro' — he could take the city.'"

Specifically, Filatov says he wants control over the local police and tax administrations, as well as authority to decide who receives mining and drilling permits, and to regulate gambling.

A cynic might note that these are the sources of Ukraine's juiciest corruption schemes, but Filatov says he has innocent intentions.

"It's important for such a big city like Dnipro, which is budget-forming," he says. "Because if (decentralization) ends there will be no new buses, no renovated entryways, no streetlamps."

Aiming for prosperity

Filatov took government office in 2014, as deputy governor to the then-oblast head, Kolomoisky.

Describing himself as "decorated like a Christmas tree" for having organized the defense of the region during Russian aggression in 2014, Filatov said that he and Kolomoisky's team had "won the hearts and minds" of Dnipro's citizens — amid rumors of hired hitmen and death threats.

For now, Filatov's tasks are more mundane than mafioso. He plans to complete the city metro by 2021, but hinted at a "surprise" when asked if he would try to complete it before the 2020 mayoral elections.

Meanwhile, a test track for the Ministry of Infrastructure's planned hyperloop is set to be built in Dnipro next year. Filatov also hopes that the city's Yuzhne rocket design bureau will restart rocket manufacture after years of decay.

The mayor spent much of the spring fighting a "trash war" after he refused to raise a trash tariff demanded by a local city councilman in exchange for modernized dump trucks.

The "trash monopoly" in the city stopped collection, leading to large piles of garbage building up around Dnipro.

"When you say that maybe another monopoly could be created, that's not possible," Filatov said. "You can write in the newspaper that anyone who wants to come and invest in the acquisition of dump trucks, can come here — you're welcome."

For someone whose career began as a lawyer in Batkivshyna Party leader Tymoshenko's office, Filatov thinks back to his first boss's advice on these problems.

"As Yulia Vladimirovna always told us when I was working (for her), 'you have to set a goal for yourself that you can't achieve', because even when you don't meet it, you will have gone further than you thought possible.'"

ArcelorMittal Kryvyi Rih plant rattled by strikes

BY JOSH KOVENSKY
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A worker at ArcelorMitttal Kryvyi Rih operates controls inside one of the steel mill's blast furnaces. The factory has been rattled by strikes in recent months amid a push by the plant's unions to raise pay. (Kostyantyn Chernichkin)

KRIVYI RIH, Ukraine — It ended with the strikebreakers.

In May, this city of 650,000 people more than 400 kilometers southeast of Kyiv was gripped by a strike as work at its biggest factory — the ArcelorMittal Kryvyi Rih steel plant — ground to a halt.

Operators of the factory's internal rail system had gone on strike for higher wages, refusing to guide trains along the factory's self-enclosed supply chain until they receive monthly pay of 1,000 euros. But lack of supply placed the factory's furnaces in danger of destruction, forcing management to make a choice: cede to the workers' demands or find a way to buy time?

Management brought in brigades of workers from state-owned railway company Ukrzaliznytsia to run the factory, breaking the strike but leaving the central dispute in place.

At the core of the conflict is brain drain — or, as labor organizer Yevgeny Galinsky joked, "arm drain."

"Globally, the situation is that a massive amount of people from Kryvyi Rih, as the only remaining industrial center in Ukraine which brings not a bad amount of dough to the state, have started leaving en masse," said Yury Samoylov, head of the Kryvyi Rih Confederation of Free Trade Unions. "Before, the city was really a company town, and people rarely left."

The dwindling number of available workers is placing pressure on ArcelorMittal to raise wages, as the factory's trade unions push for an average wage of 1,000 euros per month.

But the plant's upper management sees costs associated with higher salaries as an unacceptable threat to an ambitious, multibillion-dollar factory modernization project crucial to the company's global strategy.

According to ArcelorMittal Kryvyi Rih chief procurement officer Girish Sardana, "People are migrating to Poland, to the Czech Republic, to other countries."

"Whether you increase the salary or whatever you do, the shortage will remain," he said. "We can raise the salary but then we have to defer more projects.".

Massive history, reductions

For most of its history, ArcelorMittal Kryvyi Rih has been known by its original, Soviet name: Kryvoryzhstal.

A massive mosaic featuring shirtless steel workers and Vladimir Lenin (the plant's first namesake) still greets the factory's 24,000 workers as they enter and exit their daily shifts.

Soviet authorities ordered a steel plant built in the iron-rich Kryvyi Rih in 1931, forcing thousands of construction workers and engineers to move to the city. The first blast furnace started working in 1934.

By the 1970s, Kryvoryzhstal was one of the largest steel mills in the Soviet Union, with its ninth blast furnace having the world's largest smelting capacity.

After independence, the plant underwent a failed privatization attempt in which various oligarchs tugged at the factory, until it was auctioned in 2005 to Mittal Steel for \$4.8 billion.

The new, Indian management inherited a factory with Soviet systems and socialist obligations to its workforce.

Since then, the factory has fired thousands of workers in the name of efficiency, reducing the amount of workers from 57,000 to today's figure of 24,000.

"What was the 57,000?" asked HR director Helen Pilipenko. "Catering, medicine, the social sphere, and agrofarming — pigs, cows, milking them, etc."

"We had 12,000 pigs here," added

occupational health and safety chief Sergey Teslyuk. Teslyuk said that management had focused on eliminating the steel mill's farming contingent while "bringing young blood into the workforce," offering older workers buyouts.

ArcelorMittal's personnel management division likes to frame its workforce issues in terms of productivity. Human resources administrator Yuriy Romas said that ArcelorMittal produces 199 tons of steel per person, roughly half of Azovstal's 415 tons per person.

"In terms of production, we're in fifth place," he said. "We produce two times less per person than our [Ukrainian] competitors."

Union officials argue that ArcelorMittal Kryvyi Rih differs from others steel mills in that it has the whole production cycle — from mining ore to smelting steel — integrated within the plant, meaning that production per person will inevitably be lower.

"We're losing both headcount and influence," Samoylov said. "We want to know that our pay will be drawn nearer to European standards over a negotiable period of time."

Modernization

ArcelorMittal has invested around $4.8 billion into modernizing the plant since 2005, matching the purchase price.

According to chief technology officer Vinay Tiwari, the factory is in the midst of an ambitious, multibillion-dollar campaign to improve its steelmaking process while reducing its ecological footprint in line with an agreement signed under the privatization.

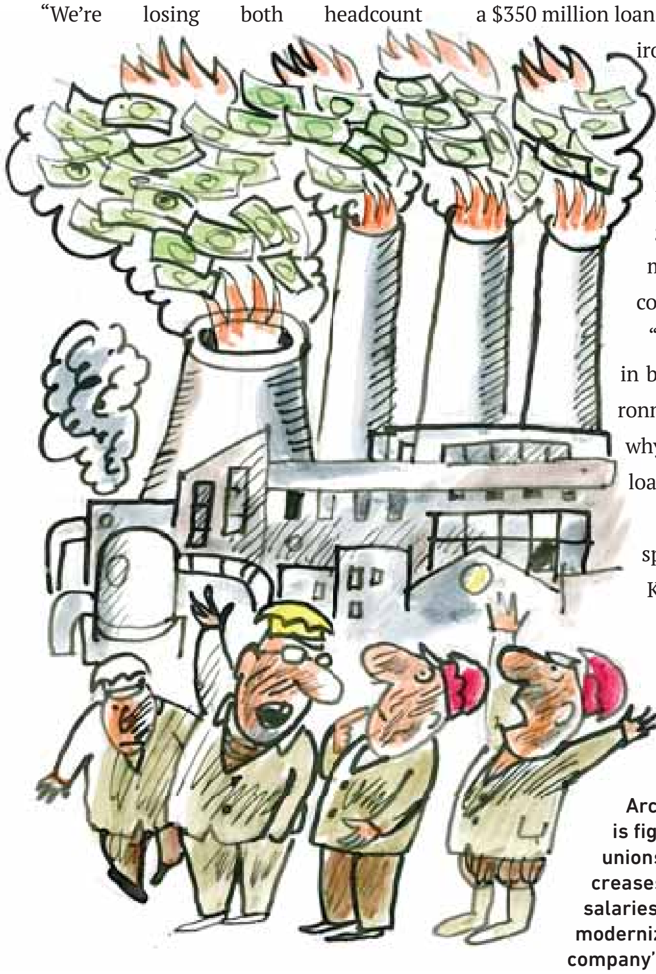
Many of the modernization plans will lessen the amount of coal ash released into the air, while one initiative will nearly eliminate the need for large natural gas purchases in steelmaking.

The European Bank for Reconstruction and Development recently gave the factory a $350 million loan to upgrade the factory's iron ore refining processes and to add new lining to a blast furnace.

Tiwari framed the improvements as targeted at environmental protection and competitiveness.

"If they can be a partner in building up a good environment for society, then why not," he said of the loan.

From a broader perspective, the company's Kryvyi Rih factory is key to the company's strategy of increasing market share in supplying steel to Africa and Latin America.



ArcelorMittal Krivyi Rih is fighting off efforts by its unions for radical pay increases, claiming that raising salaries would slow down a modernization plan key to the company's business strategy.

"This year we will do a modernization of the mill, and will start to produce rebar coil, which is very good for the market of Latin America and Europe," said marketing official Evgeny Irhin.

He added that the loss of the Russian market due to war and the loss of the Egyptian market due to heavy tariffs had forced the factory to reorient itself.

"It's a wide opportunity to diversify," he said, adding that two new continuous casting plants would open up a new avenue of sales for customers only willing to take that type of steel.

Brain drain

March 2018 saw tensions over job losses and stagnating salaries at the plant come to a head.

"There was a protest, signatures of workers were gathered, which we then used to register a labor dispute," said Galinsky, the union organizer.

The factory's 2017 average monthly salary was Hr 10,278 ($391), slightly above the Ukrainian average.

Other conditions are pushing workers away.

Kryvryi Rih itself is famous in Ukraine for its pollution, known as a punchline by many for the red-tinted snow that falls in the winter due to the high level of iron particulates in the air. Yellow fog grips the town in the morning, and it's difficult to find a place in the town that doesn't smell vaguely of sulfur or ash.

The factory has agreed to raise salaries by an average of 25 percent, but union organizers are pushing for more.

"Pay is higher everywhere else in Arcelor," Galinsky said. "People are quitting in brigades."

Pilipenko, the plant's HR manager, framed the issue in terms of social stability.

"Imagine for one second if there was 1,000 euro pay at this factory," she said. "When next door, teachers, medics, are receiving five or six."

"Would that be a real collapse, or not?"

ArcelorMittal

ARCELORMITTAL IS THE BIGGEST FOREIGN INVESTOR IN UKRAINE

Since 2005 the company has already invested $9 bln in the country

KEY PROJECTS of the large-scale investment program of ArcelorMittal Kryvyi Rih

2016
Construction of pulverized coal injection system
$60 mln

2015-2017
22 large-capacity machines purchased
Renovation of mine machinery
$24 mln

2015
Reconstruction of the Blast Furnace 6
$117 mln

May 2018
Construction of coke oven batteries 5, 6
$160 mln

2012-2017 – works on converters 4, 5, 6
2017-2020 – reconstruction of converters 1, 2, 3
Reconstruction of the converter shop with installation of new gas cleaning plants
$100 mln

Beginning of 2019 – project completion
Reconstruction of light-section mill 4
$55 mln

End of 2018 – construction completion
Construction of two new continuous casting machines
$155 mln

$1.5 bln till 2022 – the total volume of the investments of ArcelorMittal Kryvyi Rih in production development

Workers sew car seats at the German factory Bader in Lviv Oblast on June 12. (Oleg Petrasiuk)

For Lviv Oblast, benefits of being close to EU are visible every day

BY YULIANA ROMANYSHYN
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LVIV OBLAST, Ukraine — Lviv Oblast has a lot to offer. Located on the western edge of Ukraine, its capital, Lviv, is closer to Warsaw than to Kyiv, and offers a cheap, well-educated labor force that has given it a competitive advantage for years.

But this advantage has been thrown into sharper relief by Ukraine's free trade agreement with the European Union, which canceled a slew of duties and tariffs between the two markets. Automotive parts manufacturers, textile and furniture producers, and IT firms and tourists stand to benefit from this agreement.

Overall, Lviv Oblast has one of the best investment rankings in the country. The region was ranked second after Vinnytsia in 2017, according to the Institute for Economic Research and Policy Consulting.

And European manufacturers are especially eyeing its workforce.

Cheap labor, EU business

The majority of new European entrants in Lviv Oblast over the past two years have followed a specific, profitable model: take raw materials from across the EU border, make them into finished goods with Lviv Oblast's cheap workforce, then return them to Europe as finished products, according to Maryana Lutsyshyn, a European Business Association manager based in Ukraine's west.

Businesses in the car parts market, especially, are taking advantage of this approach.

"The automotive sector looks around the world for the best option in terms of plant construction expenses, labor force among other (factors)," Lutsyshyn said. "That's why they came to Ukraine as we are waiting for them with open hands."

New investments like this created 20,000 new jobs in the oblast during 2016–2017, according to Roman Matys, the head of the investment department of Lviv's regional state administration.

Having more businesses in the region has a "domino effect" — it attracts new businesses.

"It's the presence of other businesses here that makes the business environment (more attractive)," Lutsyshyn said.

What also helps is the improvement of infrastructure, and local officials promoting the region as a good destination for investments abroad.

Seats for elite German cars

German automotive manufacturer Bader is a longtime Lviv Oblast standby. The company came to Ukraine during one of the first waves of foreign investment to the region, in 2006. It produces car seat covers for BMW and Audi.

It waited for 12 years to open its second factory.

And when Bader first entered Ukraine it had to build everything from scratch.

"It was a 'green field' here, and we had to start from it," said director Andriy Pavlun, who has been working at Bader since it opened.

Today, the company owns a factory in Horodok, almost 30 kilometers west of Lviv, and recently opened a plant in Kozhychi village. It plans to launch a new production line at that plant, as the company recently received an order to make seats for Mercedes S-class and Maybach type vehicles.

Even though Ukraine's frequently unstable political situation would seem to throw a wrench in investor's plans, Pavlun says the bigger challenge is finding a big enough labor force.

Today, the factory employs some 4,000 people, and will add more than 1,000 once the new production line is complete.

Its raw material — cow leather — comes from abroad. Once in Ukraine, the leather needs to be cut, sewed, decorated, and arranged in the shape of a seat. Sometimes workers make custom seat covers for individual client orders — such as seats with embroidered initials.

Overall, the Ukrainian manufacturing plant assembles seat covers for 2,500 cars per day and then sends them to Bader's warehouse in Poland.

Staff have to be trained to work with leather. Though western Ukraine was once famous for its sewing factories, not much remained after the Soviet Union collapse.

"There are no people who sew leather here," Pavlun said. Some had experience sewing clothes but a seat is a different thing.

Heading west

Bader's employees also learn how to operate modern machinery. But this poses a danger: Once they acquire a certain skill level, these workers often look for better opportunities in Poland.

In fact, many people in the region go to Poland in search of better jobs.

More than 500,000 Ukrainians went to work in Poland during 2015–2017 for short- and long-term opportunities, the State Statistic Service reported.

"There are hundreds of Ukrainians working today at Bader's factory in Poland and the number is growing," said Pavlun.

To attract more labor force, Bader increased its salaries in Ukraine in March. Now, a seamstress is paid Hr 10,000 ($380) a month, exceeding the region's average salary of Hr 7,400 ($280).

Halyna Vozna has one the most important jobs at the factory — she stitches the part of the seat that covers an airbag. Each seat has a bar code identifying the factory as well as the person who did the stitching in case of a car accident.

Vozna has to stitch 120 units a day.

"It's difficult because you have to pay attention to everything," she said.

Italy, a popular direction for Lviv airport

Although Lviv is not so far from Warsaw,

War veteran Mykola Stetskiv and his wife Ivanna work on their small strawberry farm in Lviv Oblast on June 13. (Oleg Petrasiuk)


A cabin crew crosses the road in front of Lviv International Airport on June 12. The airport saw a 50 percent increase in passenger flow in January-May 2018. (Oleg Petrasiuk)

to get there from the EU, businesspeople and tourists often have to go through an overloaded border crossing — sometimes standing in line for eight to nine hours.

The modernization of the Lviv Danylo Halytskyi International Airport is meant to ease this congestion.

Lutsyshyn says that the airport's international flights have been increasing, mainly due to growing tourism in Lviv, but also from more people coming for business trips.

"We need airplanes so people don't have to go through the (land) border," Lutsyshyn said.

Since Ukraine's visa-free regime with most EU countries was introduced back in June 2017, Lviv's international airport has seen a 50 percent increase in passenger flow — almost 500,000 traveled through the airport from January to May, compared to the same period of last year.

Airport General Director Tetiana Romanovska said that it is mostly because of new flight routes. For example, Italian low cost airline Ernest introduced two new flights to Rome and Milan that started to operate in August, in addition to routes servicing Venice, Naples, and Bergamo. The airline has 15 flights per week from Lviv to Italy, an attractive job destination for Ukrainians.

"This is only the beginning of our expansion from the Italian capital," Chady El Tannir, Ernest Airlines's business developer, said about the Rome-Lviv route.

Andriy Moskalenko, a deputy head for development in Lviv's city council, said Italians are only 1 percent of the guests staying in Lviv's hotels, but is hopeful that more flight options will increase this number.

"Lviv is actively developing to host more conferences and business meetings, and such flights make Lviv accessible for science and business missions, and business partners," Moskalenko said.

Romanovska also plans to connect Lviv to Amsterdam and Paris with direct flights. After that, transatlantic flights to Canada and the U.S. can enter the market, since there is demand.

In addition, five new flights from Irish low cost carrier Ryanair will start operating from Lviv to Poland, Germany, and Great Britain in September. This will also create competition for Hungarian WizzAir, whose flights are usually sold out.

Strawberry enterprise

But not all businesses that have entered Lviv during the past year are international and big.

Mykola Stetskiv, a war veteran who has fought against Russian aggression in Ukraine's east, returned from Donbas in March 2015 and launched his own company — strawberry farm FainaBerry ("faina" meaning "good" in Ukrainian), located in the village of Novosilka, some 25 kilometers north of Lviv. Not without difficulties, his small enterprise just started to turn a profit in June.

"Now I think my war is here, it's in economic development, (and) in motivating other people, giving them a possibility and understanding that their country can be built differently, with a strategy," he said.

Stetskiv received a piece of land from the government for serving in the army — a small plot on a hill covered with bushes, without any infrastructure nearby. He then rented almost a dozen of plots located next to his, all of which had also been gifts to veterans. With the help of grant money from Ukraine's State Employment Service, he started planting strawberries.

"It's all made with my money and by my hands," said Stetskiv, who has never done agriculture before.

Stetskiv, a father of five, has two helpers on the field — his wife Ivanna and a local woman.

FainaBerry farm allows visitors to taste and purchase berries for Hr 30–50 per kilogram. The berries are organic since a certified fertilizer is used, Stetskiv said. He also has a greenhouse with some vegetables and greenery.

But although the state provided him with a land plot, Stetskiv didn't get any additional help with the infrastructure. There is no electricity or water on his land, but only a petrol generator and a self-made dirt road. But he has plans to fix it himself.

"I get more inspired when I see people who come here and their attitude," he said. "I understand that I am doing the right thing."

Read the full story about the Stetkivs' business online.

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Roman Matys, the head of the investment department of the Lviv regional state administration, speaks in his office in Lviv on June 11. "Invest in Lviv region," the sign reads behind him. (Oleg Petrasiuk)

How Lviv Oblast's head of investment sees the future

BY YULIANA ROMANYSHYN
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LVIV, Ukraine — Roman Matys had no plans to work in the civil service when he was a business consultant in marketing and communication. But, since 2015, the 39-year-old has served as the head of the investment department of Lviv's regional state administration — in charge of attracting business to Ukraine's western powerhouse.

"I have never had any employers besides clients. I've always worked on my own," Matys told the Kyiv Post, in his Lviv downtown office.

Today, however, Matys serves the state. He's responsible for helping businesses cooperate with regional state bodies, and helping them navigate through state bureaucracy. Some 500 companies are on his radar. His office table is stacked with thousands of business cards, sorted by affiliation or other criteria.

The biggest stack is cards from state officials. But Matys's biggest concern, he says, is potential investors, as well as Lviv's existing business community. Matys wants more jobs in Lviv, and higher salaries.

His department may have achieved some of this already. In 2017, Lviv Oblast was ranked second after Vinnytsia in the regional business climate index published by Institute for Economic Research and Policy Consulting.

But Matys has even bigger goals.

The strategy

Business in Lviv has made a number of headlines over the past year, with newly-launched and expanding enterprises popping up across the oblast.

Most of them are in manufacturing, working with raw materials from abroad and sending finished goods out of Ukraine.

Businesses like this favor western Ukraine because of its proximity to the European Union, and because the area has a cheap and skilled labor force.

Among the recent launches have been Bader, a German premium car seat manufacturer, which opened a second factory, and then another production line, and Danish company Kragelund Furniture, which launched a new furniture-making department.

Taken together, these launches brought Lviv Oblast around 20,000 new jobs in 2016–2017, excluding Lviv city itself, said Matys.

But almost all these new jobs are for the least-skilled section of the labor force. Matys thinks that the region should update from its "Lviv Oblast — factory of Europe" strategy to develop other sectors, and create jobs for highly-skilled workers as well.

To do this, Matys has a few economic avenues in mind. One is just higher-tech manufacturing, which will offer chances of career growth to employees.

The region's potential in manufacturing remains high, Matys said.

However, he also wants to develop the oblast in other directions, like value-added food processing for agricultural goods, renewable energy farms, tourism, and business process outsourcing.

"I stand for the diversification of risk, putting eggs in different baskets," he said.

Matys argues that, at present, Ukraine is not an agricultural country, but a source of raw materials. Its top agricultural export– grain — goes abroad without any added value. He would like to change the oblast's direction, inviting in companies to produce goods from existing raw materials.

One such company is Kormotech, a Ukrainian manufacturer of dog and cat food, which has broken into the international markets. They produce six brands of food for pets in their factory in a village some 30 kilometers from the Polish border, and now export to almost 20 countries.

As for renewable energy, the leader in the region, Eco-Optima LLC, owns three solar power plants, two wind power plants, as well as two thermal power plants, building some with loans from the European Bank for Reconstruction and Development.

When it comes to tourism, what Lviv needs most are good roads. Matys said that, until recently, some areas were not even accessible by car. However, the oblast is slowly repairing its road network, with around 600 kilometers fixed in 2017 and more expected this year.

Finally, in the BPO sector, British firm PricewaterhouseCoopers opened its third local office, with 350 jobs in April, providing audit, tax, and consulting services.

Labor flow

Lviv's proximity to the Polish border is a complication, as well as a lure for investors. Enterprising Ukrainians can often find better salaries just 100 kilometers beyond the Polish border, where the average gross wage is around $1,200 per month, as opposed to $280 in Lviv Oblast.

That often stimulates Ukrainians to seek better options abroad. To prevent that, Matys says business representatives should increase wages.

But it's not just a question of salary, Matys said.

Rather, companies should lure workers with benefits, like insurance or leisure activities, or letting them take some business trips. Some of them could offer to let their employees work for an affiliate abroad and then come back.

Matys is also collaborating with local companies to launch an advertising campaign, with billboards promoting family values, and asking workers to stay home. Similar billboards have been put up in Poland to encourage Ukrainian workers to return home, he said.

"Here, you are the owner of your life, your family is waiting for you here," Matys said. "There, you are living on the edge."

A boy and a girl drive a toy car in front of Lviv Opera Theater on June 12. (Oleg Petrasiuk)

Odesa's tourism, ports are brimming with potential

BY OLEG SUKHOV
SUKHOV@KYIVPOST.COM

The Odesa Seaport might have enormous potential but it cannot compete with foreign equivalents due to high tariffs and poor infrastructure. (Kostyantyn Chernichkin)

ODESA, Ukraine — Odesa, a city of 1 million people some 476 kilometers south of Kyiv and home to Ukraine's largest seaport infrastructure, is positioned to be an international economic hub and world-famous tourist destination.

But the city's pervasive corruption, poor infrastructure and high port tariffs are sapping Odesa's potential, civic activists and businesspeople say.

And the city's troubles start at the top: a name that everyone associates with corruption in Odesa is that of Mayor Gennady Trukhanov. The mayor and his business partners have been accused of trying to monopolize the most lucrative businesses in Odesa, including real estate and municipal tenders.

Trukhanov's press office said it would not comment on "untrue information that is aimed exclusively at discrediting the city authorities and has no factual basis."

Neglected seaports

Oleksandr Varvarenko, the head of Odesa-based cargo shipping firm Varamar Group, told the Kyiv Post that Ukraine's port tariffs and duties are the highest in the world, and described Ukrainian ports, including Odesa's, as some of the worst in the world, making it difficult for them to compete internationally.

The largest seaport in the region, the Odesa Commercial Sea Port, has argued that high tariffs are necessary to finance investments in infrastructure.

The seaport processed 24 million tons of cargo last year, or 4.4 percent less than in 2016, and the net profit of the port amounted to Hr 303 million ($12 million) in 2016, according to Nashi Hroshi investigative network. No data is available for last year, whereas the forecast for this year is Hr 119 million ($4.5 million).

EuroTerminal

EuroTerminal, a private logistics complex, has an effective monopoly on processing container shipments from the Odesa Commercial Sea Port, and due to its location all containers have to go through it.

Ihor Tkachuk, CEO of the Odesa Sea Port Authority, told the Kyiv Post that he was negotiating plans to build a bypass road around EuroTerminal's facilities to spur competition.

"We'll build a bypass to remove obstacles for private businesses and make sure that one company doesn't have a monopoly," he said.

The terminal was built under then-President Viktor Yanukovych's instructions in 2011, and Yanukovych and his allies were suspected of participating in the scheme, although they denied this.

EuroTerminal's owner, Pavel Lisitsin, used to be a business partner of Leonid Minin, Oleksandr Angert and Oleksandr Zhukov.

Angert, Zhukov and their associates — Odesa Mayor Trukhanov and Vladimir Galanternik — have been accused of spearheading corruption in Odesa, and according to an Italian police dossier, were members of a mafia gang in the 1990s. They deny all accusations of wrongdoing.

Elena Goryayeva, EuroTerminal's deputy director for special projects and public relations, denied accusations that the terminal is linked to Angert and his allies, and that it has a monopoly on container shipments from the port.

Odesa Airport

But another obstacle for doing business in Odesa is the lack of a modern and well-functioning international airport.

The city's airport is dilapidated and should have been closed a long time ago, Varvarenko said. And if that were the case, his firm would have to move to another city or country since the infrastructure is vital for his business trips.

Currently, the outdated terminal and runway serve for departures, while a new terminal launched in 2017 services arrivals. The airport is in the process of building a new runway, which is scheduled to be operating later this year.

The airport is also known for its high service fees for international flights. Pavlo Prussak, CEO of the airport, denies that the fees are excessive, and says they were set by Ukraine's national authorities, not by the airport.

Moreover, the airport offers flights to few international destinations for a city of such size and economic importance. Odesa has about 36 international destinations, while its traffic amounted to 1.2 million passengers in 2017. In comparison, the airport serving the Moldovan capital Chisinau — a city with a population of less than 700,000 — has about 50 destinations, and its traffic was up to 2.7 million passengers last year.

Trukhanov, then head of Yanukovych's Party of Regions' faction in Odesa City Council, is currently under investigation by the National Anti-Corruption Bureau of Ukraine for allegedly unlawfully selling Odesa International Airport to businessmen Boris Kaufman and Oleksandr Hranovsky in 2011. In April, a Kyiv court seized Odesa Airport's property as part of the case.

The airport did not respond to a request for comment.

Tourism and real estate

All of this is blocking the city's development, including tourism.

With its rich history, 19th century architecture and beautiful Black Sea coast, Odesa is a natural tourist destination. And after Russia started its occupation of Ukraine's Crimea in 2014, many Ukrainians switched to taking their summer vacations in Odesa.

In 2017, 2.5 million tourists visited Odesa, 19 percent more than in 2016, according to Odesa city authorities.

But Odesa is still not ready for the increased inflow of visitors.

Historic buildings in the city center are not sufficiently maintained, with many of their facades crumbling, Mykhailo Kuzakon, civic activist and head of Odesa's branch of the People's Movement of Ukraine party, and Inna Kravchuk, head of the Council of Odesa Businesspeople, told the Kyiv Post.

And while many historic buildings are not being properly maintained, Odesa's real estate market is dominated by two property developers — Budova, owned by three Odesans, and Kadorr Group, a company owned by Kyiv Post publisher Adnan Kivan.

Odesa Mayor Gennady Trukhanov and businessmen Oleksandr Angert and Volodymyr Galanternik are accused of profiteering from lucrative real estate projects and tenders in Odesa due to their political clout. They deny the accusations.

In 2016 to 2017, Budova and Kadorr Group accounted for at least 60 percent of all buildings built in the city, Odesa-based journalist and civic activist Mykhailo Meizersky told the Kyiv Post.

In 2016, Kadorr Group alone built 29,700 square meters of real estate, according to Ukraine's Forbes magazine (not related to U.S. magazine Forbes).

Budova is formally owned by little-known Odesa residents Oleh Glushankov, Dmytro Dimarsky and Boris Rodin. However, given the privileges given to Budova by the Odesa City Council, the property developer has been linked by numerous Odesa activists, investigative journalists and market insiders to Odesa Mayor Trukhanov and his business partners Angert and Galanternik.

Budova declined to comment on the accusations, while Trukhanov denied being a co-owner of Budova in a comment for the Kyiv Post.

Under Trukhanov's mayorship since 2014, Odesa City Council has allocated the most high-end land to Budova, according to Kuzakon and Kravchuk.

Small businesses

And municipal authorities are also making life more difficult for small businesses with numerous regulations, many of which violate national laws, Kravchuk argued.

The reason? Local authorities still want businesses to pay bribes.

It is nearly impossible for businesses not connected to municipal authorities to receive land for kiosks or shops, Kravchuk said, adding that it is much easier to do business in Kyiv than in Odesa. Trukhanov's office denied the accusations of wrongdoing, saying that the allocation of land had been in line with the city's urban planning projects.

Vested interests entangle Odesa Portside Plant

BY OLEG SUKHOV
SUKHOV@KYIVPOST.COM

ODESA, Ukraine — The privatization of state-owned fertilizer producer Odesa Portside Plant, one of Ukraine's largest factories, has been delayed many times since the 1990s.

This year the plant, which is located next to the Yuzhny Sea Port in Odesa Oblast, is scheduled to be privatized yet again.

But vested interests that profiteer from the loss-making and poorly run state company may block its privatization again.

In another scenario, the plant may be sold to firms affiliated with top officials, as opposed to an investor with a transparent ownership structure.

The Odesa Portside Plant did not respond to repeated requests for comment.

The privatization of the Odesa Portside Plant, based near the seaport of Yuzhny, has failed many times, reportedly due to vested interests. (Volodymyr Petrov)

Privatization attempts

There have been about eight attempts to privatize the plant since the 1990s, but all of them have failed.

In 2009, tycoon Ihor Kolomoisky bought the plant for Hr 5 billion ($625 million in 2009), but the State Property Fund canceled the deal, saying the plant had been undervalued.

In June 2016, the State Property Fund unsuccessfully tried to sell it for Hr 13.1 billion ($524 million). And in December 2016 the fund again unsuccessfully tried to sell the plant, this time for Hr 5.2 billion ($208 million).

The current starting price for the Odesa Portside Plant's privatization is $54 million, or Hr 1.4 billion.

Vested interests

Experts attribute the repeated failure to sell the plant to vested corrupt interests that profiteer from supply contracts with the plant.

"State companies are a source of corruption," Andriy Boytsun, an advisor on privatization at the Strategic Advisory Group on supporting Ukrainian reforms, told the Kyiv Post. "When they are controlled by politicians, there's always a temptation for the authorities to siphon money out of them. Those who steal money from them and profiteer from them will always be against privatization."

Another reason why the plant has not been privatized is its "toxic debt" to tycoon Dmytro Firtash, Boytsun said.

In February 2017, a Vienna court ordered that Firtash be extradited to the United States to face charges that he had secured a titanium extraction permit in India through paying $18.5 million in bribes. However, Austria's Justice Ministry has not yet authorized Firtash's extradition.

The plant owes $193 million to Firtash's Ostchem, as well as Hr 434 million ($16.6 million) to gas pipeline monopoly Ukrtransgaz and Hr 1.5 billion ($57 million) to state-owned oil and gas monopoly Naftogaz.

The issue of the debt should be resolved before privatization, Boytsun said.

"It won't be possible to sell the Odesa Portside Plant quickly and efficiently," he added.

Intentional bankruptcy?

In April, the plant halted operations because gas pipeline monopoly Ukrtransgaz said that the plant's supplier, the All-Ukrainian Energy Company, had violated its contract by halting gas supplies.

Back in 2017, the plant also suspended production twice to conduct repairs.

Odesa-based investigative journalist Grigory Kozma, and Mykhailo Kuzakon, the head of the Odesa branch of the People's Movement of Ukraine party, believe that the Odesa Portside Plant's management is intentionally driving it to bankruptcy.

"To make sure that an external investor doesn't come, they're creating the impression that the business is loss-making and unstable," Kuzakon said.

Kuzakon and Kozma argue that Ukrainian President Petro Poroshenko's allies, including lawmaker Ihor Kononenko, were planning to buy the plant for themselves. Kononenko did not respond to a request for comment.

Shady contract

In late 2017, the little-known All-Ukrainian Energy Company won a contract to supply gas to the Odesa Portside Plant. The firm had obtained a gas supply license not long before that.

The firm was founded by businessman Vadym Kolesnikov.

The All-Ukrainian Energy Company's phone numbers are the same as those of a different company, Energomerezha of businessman Dmytro Kryuchkov. Kolesnikov headed Energomerezha's supervisory board in 2014.

In April, Kryuchkov was arrested in Germany as part of a corruption case into power company Zaporizhzhyaoblenergo that is being investigated by the National Anti-Corruption Bureau of Ukraine. The power company's owner Grigory Surkis is also being investigated in the case, while Kononenko has been accused by Poroshenko critics like lawmaker Sergii Leshchenko, fugitive lawmaker Oleksandr Onyshchenko and others of profiteering from Zaporizhzhyaoblenergo, which he denies.

A week after Kryuchkov's arrest, Radio Liberty's Schemes investigative show filmed the cars of Poroshenko, his top ally and lawmaker Oleksandr Hranovsky and Surkis, together with his brother Ihor, visiting the Presidential Administration on April 20, implying that the three were meeting to discuss the investigation against Surkis. Hranovsky is largely believed to be a gray cardinal in charge of the law enforcement system. He denies this.

A representative of the Surkis brothers said they had discussed soccer-related issues during the meeting, since Surkis is a vice president of UEFA. Hranovsky did not respond to a request for comment.

Corruption cases

The NABU is investigating Kononenko, Hranovsky and ex-People's Front lawmaker Mykola Martynenko in a graft case linked to gas supplies to the Odesa Portside Plant. They have denied profiteering from the plant.

Martynenko's business partner Serhiy Pereloma, the chairman of the plant's board of directors, and Mykola Shchurikov, a deputy CEO of the plant, were charged with embezzling money from the Odesa Portside Plant through supply contracts and were released on bail in 2016.

"The NABU tried to link me to the Odesa Portside Plant as part of its struggle against the previous Cabinet of Ministers," Martynenko told the Kyiv Post. "There was a lot of black PR but it turned out to be lies… The NABU is persecuting Pereloma and Shchrurikov as part of fabricated cases that are collapsing in courts."

Olga Tkachenko, an ex-aide to Hranovsky, used to be a member of the Odesa Portside Plant's executive board, while Oleksandr Vizir, an aide to Kononenko, became a member of the Odesa Portside Plant's board of directors in 2016.

Fugitive lawmaker Onyshchenko told the Kyiv Post that he had been paying a Hr 2,000 bribe per 1,000 cubic meters to Kononenko to supply natural gas to the Odesa Portside Plant.

"The boss (Poroshenko) gave me the green light to supply gas to the (Odesa) Portside Plant," Onyshchenko told Kononenko in May 2015, according to alleged correspondence between Kononenko and Onyshchenko published by the Slidstvo.info investigative news website.

Kononenko replied that he was "having a lot of problems with Martynenko, and a couple of days is needed to push him out," according to the correspondence.

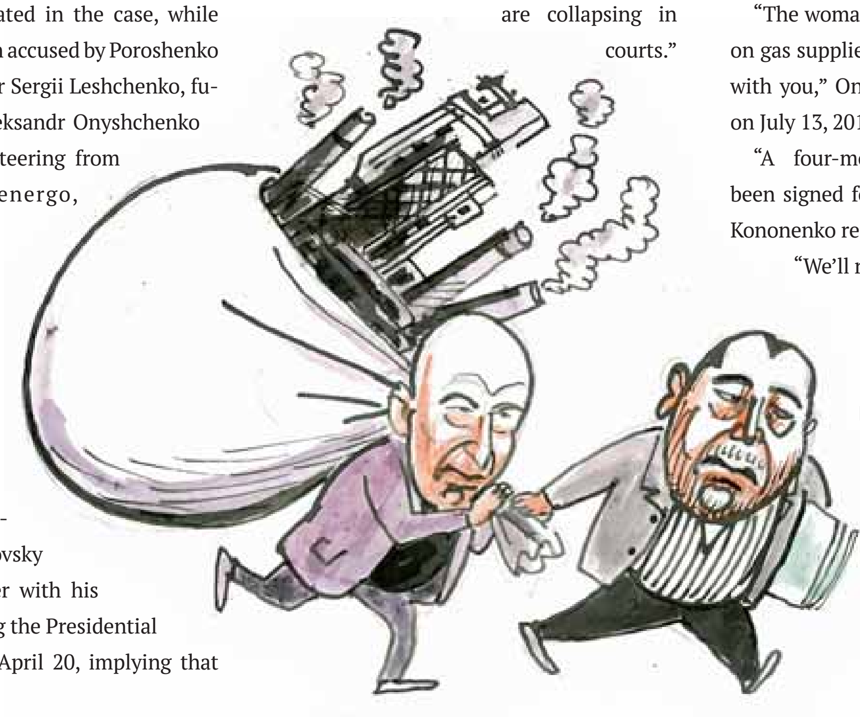
"Why have I been thrown out of gas supplies to the (Odesa) Portside Plant?" Onyshchenko asked Kononenko in June 2015. "You promised!"

Kononenko replied that he didn't know, and then started negotiating the price of gas supplies to the plant. Later Kononenko proposed that Onyshchenko pay the same price as Martynenko's business partner Pereloma.

"The woman said she had reached a deal on gas supplies to the Odesa Portside Plant with you," Onyshchenko asked Kononenko on July 13, 2015. "Is that the case?"

"A four-month contrast has already been signed for the Odesa Portside Plant," Kononenko replied.

"We'll renegotiate later."



President Petro Poroshenko's top allies and lawmakers Ihor Kononenko and Oleksandr Hranovsky are under investigation by the National Anti-Corruption Bureau of Ukraine for allegedly profiteering from the Odesa Portside Plant. They deny the accusations of corruption.

Goesta Ljungman: Big harm in big corruption

27→ similar result: corruption in Ukraine has been and continues to be widespread.

In Transparency International's survey of the perceived level of corruption, Ukraine scores only 30 out of 100 (with 0 being completely corrupt and 100 being completely clean). This stands in contrast to peer countries in the region, which score 50 and higher.

The Corruption Index in the International Country Risk Guide and the World Bank's Control of Corruption Index arrive at the same result: corruption is a much bigger problem in Ukraine than in other European countries.

Self-serving public officials abusing their powers for personal benefit goes against the fundamental democratic principle of rule-of-law. But corruption also harms economic development in various ways.

Investors will only make long-term investments into the development of Ukrainian production once they are confident that their business will be treated fairly by government authorities, that competition is even, and that property rights are guaranteed. If not, they will simply set up their business in Ukraine's western neighbors. And this is what is happening. But it is not only that foreign investors stay away, domestic investment in physical capital in Ukraine is also low, much lower than in Romania, Hungary and Slovenia. That it is corruption that holds back investment is confirmed by business surveys, which consistently rank the uncertainty of property rights, overreach by government agencies and shortcomings in the judicial system as the main concerns.

There is also a direct cost when public resources end up in the pockets of corrupt officials or their allies, rather than being used to provide high-quality public services. Kickbacks in procurement, government contracts going to friends and family, private use of state property, and embezzlement of public funds increase costs and deprive the government of resources that could be used to provide education, health care, public infrastructure and defense. As an illustration, the NGO Patients of Ukraine estimates that 1,600 Ukrainians die daily from the resulting lack of medicine, underlining the importance of safeguarding public resources and ensuring that they are used for their intended purpose.

A man looks at exhibits at the Park of Corruption exhibition in Hryshko Botanical Garden in Kyiv on June 1. (Volodymyr Petrov)

Not surprisingly, countries with low levels of corruption tend to be richer. This suggests that Ukraine could grow its economy by successfully reducing corruption. A study by the IMF from 2017 shows that by bringing the level of corruption — which is now one of the highest in Europe — down to the average level of corruption in the European Union, Ukraine would increase annual GDP growth by about 2 percent. This would make a substantial difference to employment and incomes over time, and would accelerate the convergence of incomes in Ukraine to the average income levels in Europe.

While much has been done since 2014 to create anti-corruption institutions, particularly the National Anti-Corruption Bureau of Ukraine, corruption remains a problem.

International experience highlights the importance of transparency to detect corruption. ProZorro — the electronic procurement system — and the electronic asset declarations for public officials are significant developments. The next step is now to ensure that these instruments lead to concrete results. High-level officials engaged in corruption should be held to account for their crimes. In this regard, strengthening the judicial system is key, including the swift establishment of an independent anti-corruption court of the highest standards.

Goesta Ljungman is the International Monetary Fund resident representative in Ukraine.

Kyiv Post

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Olena Goncharova
Edmonton, Canada

"Covering Canada's Ukrainian diaspora community, one of the largest in the world, is a great opportunity. Ukrainian-Canadians have shaped both nations and will continue to do so in the future."

Business Associations

Business Association	Year founded	Number of members	CEO	Contact info
U.S.-Ukraine Business Council	1995	223	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	933	Anna Derevyanko	www.eba.com.ua Head Office 1-A Andriyivsky Uzviz, 1st floor 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	600+	Andy Hunder	www.chamber.ua Horizon Park Business Center 12 Amosova St., 15th Floor Kyiv, 03680, Ukraine Tel: +38 044 490 58 00 Fax: +38 044 490 58 01 e-mail: chamber@chamber.ua
The International Chamber of Commerce	1998	96	Volodymyr Schelkunov	www.iccua.org 19-B Reytarska St. Kyiv, 01030, 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+	Gennadiy Chyzhykov	www.ucci.org.ua 33 Velyka Zhytomyrska St. Kyiv, 01601, Ukraine Tel: +380 44 584 28 24 Fax: +380 44 584 28 27 e-mail: ucci@ucci.org.ua
The Belgian-Ukrainian Chamber of Commerce	2010	50	Olga Bukavyn	www.ubcc.eu Driekhoekstraat 27 3945 Ham - Belgium Tel: +32 473 850 900 Fax: +32 13 31 48 67 e-mail: info@ubcc.eu
Camera di Commercio Italiana per l'Ucraina ("CCIPU")	2006	800	Maurizio Carnevale	www.ccipu.org 52 Dehtiarivska St. Kyiv, 04112, Ukraine Tel: +38 044 391 41 18 Fax +38 044 391 41 18 e-mail: info.ua@ccipu.org
British Ukrainian Chamber of Commerce ("BUCC")	1997	250	Bate C. Toms	www.bucc.com.ua 18/1 Prorizna St., Suite 7 Kyiv, 01034 Ukraine Tel: +38 044 278 10 00 Fax: +38 044 278 65 08 e-mail: bt@bctoms.net
Canada-Ukraine Chamber of Commerce	1992	121	Zenon Potichny	www.cucc.ca 6 Muzeyny Ln. Kyiv, 01001, Ukraine Tel: +380 44 495 85 51 Fax: +380 44 495 85 45 e-mail: ukraine@cucc.ca

Business Association	Year founded	Number of members	CEO	Contact info
Polish-Ukrainian Chamber of Commerce	1992	200	Jacek Piechota, Oleksandr Shlapak	www.pol-ukr.com 4/10 Khoryva St. Kyiv, 04071, Ukraine Tel: + 380 44 221 48 78 +380 44 221 48 98; e-mail: kyiv@pol-ukr.com e-mail: info.ukraine@pol-ukr.com
Danish Business Association	2010	55	Lars Vestbjerg	www.dba-ukraine.com Tel: +380 67 674 68 66 e-mail: lars@vestbjerg.com 48-A Gorodnytska St. Lviv, 79019, Ukraine
Deutsch-Ukrainische Industrie-und Handelskammer	2015		Alexander Markus	www.ukraine.ahk.de +38 044 377 52 44, 044 377 52 00 e-mail: info@ukraine.ahk.de wul. Puschkinska 34, 01004 Kiew, Ukraine
French Chamber of Commerce	1994	100+	Jean-Paul Piotrowski	www.ccifu.com.ua 10 Lypynskoho St., off. 10 Kyiv, 01030, Ukraine Tel: +38 044 235 36 64 e-mail: ccifu@ccifu.com.ua
Norwegian Ukrainian Chamber of Commerce	2008	100	Kjartan Pedersen	www.nucc.no P.O. Box 634 Sentrum Oslo, 0166, Norway Tel: +47 98410602 Tel: +38 067 406 28 74 e-mail: post@nucc.no
Association Ukrainian Agribusiness Club	2007	101	Alex Lissitsa	www.ucab.ua/en 146 Zhylianska St., 3rd floor Kyiv, 01032, Ukraine Tel: +380 44 236 20 97 Fax: +380 44 236 20 79 e-mail: info@ucab.ua
Association of Ukraine-EU business cooperation assistance (consulting)	2014	N/A	Yuriy Kogut	03115, 121-B Peremohy Ave., off. 224 Tel: +38 044 220 29 82 Fax:+38 044 220 29 78 e-mail: contact@euassistance.org e-mail: office@sidcon.com.ua
European Economic Chamber of Trade, Commerce and Industry	2010	25	Stanislav Grygorskyi	www.eeig.com.ua 14-A Dimitrova St. Kyiv, 03150, Ukraine Tel: +38 (044) 200-10-40 e-mail: info@eeig.com.ua
Chinese Commerce Association	2015	57	Wei Xing	www.cca.com.ua 10 Stritenska St. Kyiv, 01025, 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 122-A Saksahanskoho St., 1, off. 4 Kyiv, 01032, Ukraine Tel: +38 044 234 30 26 +38 044 235 28 49 e-mail: info@tuid.org.ua

Business Association	Year founded	Number of members	CEO	Contact info
Union of Industrialists and Businessmen of Turkey and Ukraine «TUSIB»	2012	50+	Mete Karaer	www.tusib.org Ukraine, 03038, Kiev 2d, Protasiv Yar str., of.4 Tel.: +38 044 200 28 21 Tel.fax: +38 044 200 28 22 e-mail: office@tusib.org
Ukrainian Business Association	2015	27	Oleksii Chuiev Executive Director	www.uba.in.ua Tel.: +38 067 700 96 99 Kyiv, 25 Kioto St. info@uba.in.ua
Commercial Councils Of Embassies				
Trade Department at the Danish Embassy in Kyiv	1992	N/a	Tetyana Kobchenko Lesya Logvinenko - Export advisors	www.ukraine.um.dk e-mail: tetkob@um.dk Tel: +38 044 200 12 68 Tel: +38 044 200 12 65 e-mail: leslog@um.dk
ADVANTAGE AUSTRIA Commercial Counselor's office of the Austrian Embassy	1993	N/a	Hermann Ortner Commercial Counselor	www.advantageaustria.org Posolstvo Avstrii - Torhovyi 3-5 Kruglouniversytetska St. Off. 31, 11th floor Kyiv, 01024, 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	Alexis Struve Director	www.businessfrance.fr www.ubifrance.com The Embassy of France in Ukraine 39 Reitarska St., Kyiv, Ukraine Tel: +38 044 590 22 18
Ukrainian Business Support Agencies				
Kyiv Investment Agency	2014		Oleg Mistuque	www.investinkyiv.org 11-A Tereschenkivska St. Kyiv, 01004, Ukraine Tel: +38 044 289 53 51 e-mail: welcome@investinkyiv.org
Business Ombudsman Council	2015		Algirdas Semeta	www.boi.org.ua Podil Plaza Business Centre 30 Spaska St., Kyiv, 04070, Ukraine Tel: +38 044 237 74 01 e-mail: info@boi.org.ua
Ukraine Invest	2017		Daniel Bilak Director	www.ukraineinvest.com Ukraine Investment Promotion Office Cabinet of Ministers of Ukraine 12/2 Hrushevskoho St., off. 148 Kyiv, 01008, Ukraine
Office of the National Investment Council	2016		Yuliya Kovaliv Head	Parus Business Centre 2 Mechnykova St. Kyiv, 01023, Ukraine Tel: +38 044 498 7775 e-mail: office@nicouncil.org.ua


Business consulting
Investment protection
Business development strategies
Business and reputational risks
Business protection
Partners` relationships
GR
Removal business from conflicts
Unlawful takeovers
Anticompetitive actions
Illegal actions of government / law enforcement agencies
Business protection
Compliance
Effective business protection system building
Investment projects support
Business risks` management
Identification
Modeling
Analysis
S&P
Investment risk management agency
For more than 10 years S&P Investment Risk Management Agency has been building a unique business protection system for its clients, which helps to keep their assets, invest freely, receive planned profits and increase their capital.
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