

## Doing Business with Ukraine.

Ukraine is the second largest country in Europe. With a land area of 603 700 sq.km, it borders on Belarus to the north, Russia to the north and east, and Romania, Moldova, Hungary, Slovakia, and Poland to the west. For over 2 800 km to its south it forms the northern coast of the Black Sea and the Sea of Azov.

The capital is Kyiv (Kiev), with a population of 2.6 million. Other major cities are: Kharkiv (1.47 million), Dnipropetrovsk (1.07 million), Odessa (1.03 million), Donetsk, Zaporizhia, and Lviv. Our country, a land of approximately 43 million people with substantial human, technical, and natural resources, is in a strategically important location at the crossroads of Central Europe, Russia, Central Asia, and the Middle East. As such, it has great potential for developing into an important new market for foreign trade and investment. A significant number of large multinational companies and smaller foreign investors are present in the country. Ukraine's ultimate trade and investment potential will depend largely on the success of its attempts to accelerate the movement toward a market economy and to develop a more conducive business environment.

Ukrainian, an Eastern Slav language, is closely related to Polish, Belarusian, and Russian, it is written using the Cyrillic script. Ukrainian is the official language of Ukraine. Russian is widely spoken, especially in the south and east of the country. Ethnic Ukrainians make up approximately 78% of the population; Russians 17%; other ethnic groups include: Tatars, Belarusians, Romanians, Jews, and Hungarians.

Ukraine is a presidential parliamentary republic. The President is directly elected for a five year term. The President is the head of state. On 25 May 2014, Mr. Petro Poroshenko was elected the President of Ukraine. A 450-member, unicameral parliament (the Verkhovna Rada) is elected by proportional representation every four years. Mr. Volodymyr Groysman is the Head of the Ukrainian Parliament. The Parliament appoints the Prime Minister, the Minister of Defence and the Minister of Foreign Affairs is nominated by the President. Other members of the Cabinet of Ministers of Ukraine are nominated by the Prime Minister and appointed by the Parliament. In December 2014 the Prime Minister of Ukraine Mr. Arseniy Yatsenyuk formed the Government of Ukraine.

Russia's temporary annexation of Crimea, the military conflict with pro-Russian separatists in the east has exacerbated the existing macroeconomic challenges for Ukraine, caused by widespread corruption and years of mismanagement, and pushed the country into its deepest recession since 2009. Thus, the economy is

estimated to have contracted by about 7.0% yoy in 2014 amid growing disruption of economic ties and infrastructure damage as a result of hostilities in Donbas, weakening domestic consumption, and falling exports and capital investment. Domestic consumption was also affected by strong Hryvnia (Ukrainian currency) depreciations, tight fiscal austerity measures, accelerating inflation and the credit squeeze. On the upside, however, real sector performance was supported by a sharp contraction in imports, improved access to the EU market for Ukraine and favorable developments in agriculture. Indeed, Ukraine gathered a record high harvest of 63.8 million tons of grain in 2014, exceeding the previous year's record by 2.4%. The harvest could have been even higher if grains from all the sown area in Donetsk and Luhansk regions were collected. As a result, despite a high base effect, agriculture was the only sector demonstrating small but solid output growth of 2.8% yoy in 2014.

**In this respect, we would like to attract the attention of Israeli businessmen that Ukraine considers Crimea as the territory of Ukraine temporary illegally occupied by the Russian Federation. So, we will judge economic activity of any foreign company or person on the territory of Crimea without permission of Ukrainian Government as unfriendly act which can cause respective consequences from our side, such as including of these companies and persons in the special sanctions list.**

According to the “Kremlin Black Book” published by Ukrainian Government in the mid of February 2015 the war waged by Russia destroyed 20% of Ukraine's economic potential, including its forecasted revenues and foreign exchange earnings. Ukraine spends around 100 mln. hryvnias (6,5 mln. US dollars, indicators correspond to the currency exchange rate of 15,76 hryvnias / 1 USD by late December 2014) daily in order to protect itself from the Russian forces and conduct the Anti-Terrorist Operation. Budget revenues in 2014 have plummeted by 23 bln hryvnias (1,5 bln US dollars):

- The Autonomous Republic of Crimea and the city of Sevastopol – 9.8 bn hryvnias (620 mln. US dollars) .
- Donetsk and Luhansk regions – 13.2 hryvnias (880 mln. US dollars) .

On 27 June 2014 Ukraine signed an Association Agreement with the European Union. The Association Agreement will become effective upon its ratification by the national parliaments of the EU Member States and the Ukrainian Parliament (as of the date of this publication it has been ratified by a majority of EU Member States). The Agreement provides for approximation of policies and legislation of Ukraine with the European Union. The parties commit to co-operate and converge policy, legislation, and regulation across a broad range of areas, including visa-free movement of people, cooperation in the economic area, justice, and the modernization of Ukraine's energy infrastructure. The free trade area between Ukraine and the European Union is to be established for a 10-year transition period after the Association Agreement becomes

effective. The EU agreed to provide Ukraine with political and financial support and access to EU markets.

On 23 April 2014 the EU unilaterally introduced the autonomous preferential trade regime for Ukrainian goods applying zero import duties for Ukrainian exporters through 31 December 2015.

On March 11, 2015 the IMF agreed a medium-term program of financial assistance for Ukraine, designed for four years, under the Enhanced Extended Fund Facility (EFF) and worth a total of \$17.5 billion. The four-year program the IMF granted to Ukraine is a sign of confidence in the country and support from the civilized world said Ukrainian President Petro Poroshenko. This will allow Ukraine to receive a package of economic and financial assistance from the World Bank, the European Bank for Reconstruction and Development and other banks. The combined package of assistance is estimated at \$40bln.

The President of Ukraine and the Ukrainian Government see the deep structural and overwhelming reforms as the only way to restore social and economic life of the country.

In January 2015 President Petro Poroshenko has signed the Decree "On the Strategy for Sustainable Development "Ukraine – 2020".

The Strategy for Sustainable Development of Ukraine until 2020 determines goals and indicators of their achievement, as well as directions and priorities of state development. The purpose of reforms is to achieve the European standards of life and decent place in the world for Ukraine. The Strategy includes 62 reforms. 8 reforms and 2 programs are the top priorities among them. The Strategy also defines 25 key indicators of successful state development.

The top priorities are: reform of the national security and defense system, renewal of authorities and anti-corruption reform, judicial and law enforcement reform, decentralization and public administration reform, deregulation and development of entrepreneurship, healthcare reform and tax reform.

The top-priorities also include two programs – energy independence and popularization of Ukraine in the world, as well as promotion of state interests in the global information space.

The implementation of the Strategy provides for the achievement of 25 key indicators. Particularly, it is planned that Ukraine will enter the top-30 countries in the World Bank's Doing Business ranking. In Standard and Poor's rating on liabilities in foreign currency, Ukraine's investment category will be not below "BBB". The GDP per capita (under the purchasing power parity) estimated by the World Bank will increase to 16 000 USD.

Net FDI inflow will have equaled 40 billion USD by 2020. Expenditures for the national security and defense will be not less than 3% of GDP. Ukraine must enter the top-50 countries under the Transparency International Corruption Perceptions Index.

The main precondition for the implementation of the Strategy is social agreement between the government, business and civil society, where each party has its zone of responsibility.

Trade and economic cooperation is one of the most successful spheres of relations between Ukraine and Israel. Nowadays, Israel takes a considerable position among the major trade partners of Ukraine. From year 2012 our trade turnover exceeded more than \$1 billion. At the same time our bilateral trade potential is much greater, and trends of the current year confirm such feelings.

As for 3 months of 2015 the total trade turnover made US \$ 241.7 m. and decreased by 6.5 % compared to the previous year. According to the State Statistics Service of Ukraine, in 2014 the total trade turnover between Ukraine and the State of Israel amounted US \$ 1 075 m. and decreased by 10.5 % compared to the previous year. In 2014 positive for Ukraine trade balance was US \$ 359.1 m.

In 2014 main exports from Ukraine to Israel were: cereals (43.9 %); ferrous metals (27.6 %); food industry by products (9.8 %); oil seeds and oleaginous plants (3.5 %), milling industry products (2.2 %), nuclear reactors, boilers, machinery (2.2 %) and fertilizers (1.6%).

Main imports from Israeli to Ukraine were: mineral fuel, oil and products of their refining (60.7 %); various chemical products (7.6 %); plastics, polymers (5.6 %); goods procured in ports (3.5 %); pharmaceutical products (2.4 %), electric machines (2.3 %), eatable fruits and nuts (1.9 %) and vegetables (1.9 %).

Number of companies with the Israeli capital are present at the Ukrainian market. In numerical terms, the Israeli foreign investment in Ukrainian economy starting from 1991 is just about \$ 50 mln. So, nowadays, collaboration in this field obviously does not correspond to the potential of the Ukrainian and the Israeli economies.

The Israeli companies bring not only capital but also international “know-how” of business, modern management techniques, new information and production technologies, software and other intangible assets.

Israeli business experience, “know-how” and hi-tech skills are valued in our country. Israel has plenty of modern technologies that are still needed in Ukraine.

We hope that the Israeli companies will invest in the potential of the Ukrainian agriculture, as well as in food, energy, mining, engineering, transport and communication sectors.

The main Israeli direct investment in Ukraine by economic activity are real estate (19.1% of the total), construction (16.2% of the total), industry (15% of the total) and processing industry manufacturing products wood (14% of the total).

We are optimistic about the prospects of economic cooperation between Ukraine and the State of Israel in the future. Our countries have a strong potential for economic cooperation in many areas of trade, industry, investment and science.

One of the key issues in the trade and economic relations between our countries is the continuation and intensification of negotiation process on the Free

Trade Agreement between the Cabinet of Ministers of Ukraine and the Government of the State of Israel.

We hope that the Ukrainian and Israeli negotiating groups will intensify FTA's negotiations and prepare a final draft of the Agreement in nearest future.

Such agreement, in our opinion, will start a new era of the trade and economic cooperation of our countries and will stimulate considerably a new possibility for our producers and exporters.

Ukraine is interested in and strives for intensification of partnership with Israel in the framework of different international organizations, intending to elaborate mutual initiatives and projects.

Ukraine remains an attractive country for business. Highly qualified and relatively cheap labour, developed transportation and communications infrastructure, and a favourable geographic location make Ukraine attractive for companies interested in this part of the globe. Promising sectors include: oil and natural-gas extraction; energy efficiency technology; telecommunications; travel and tourism; the provision of computer software and services; the retail trade; and the manufacture of: oil and gas-field machinery; electrical power systems; agricultural machinery; pharmaceuticals; food processing and packaging equipment; computers and peripherals; agricultural chemicals; automotive parts/services equipment; building materials. In the near future there may be significant investment opportunities for investors in the gas and oil industry, energy efficiency, electrical power systems, telecommunications, commercial real estate, transportation infrastructure development, and commercial banking. The country is also an attractive place to deploy manufacturing sites and service centers for customers located in the European Union. In fact, Ukraine's geographic location, communications infrastructure, and improving political and economic environment make it an effective transportation corridor between the European Union and the Commonwealth of Independent States (CIS) countries.

Ukraine provides unlimited opportunities for investments with its highly-skilled professionals, proximity to the core transport hubs of the region and being driven by a new generation of leaders.

In this bulletin, highly appreciated initiative of the Federation of Israeli Chambers of Commerce, you can find the commercial propositions of the Ukrainian companies and other materials which will help in doing business with Ukraine.

Ukraine is Open for You!

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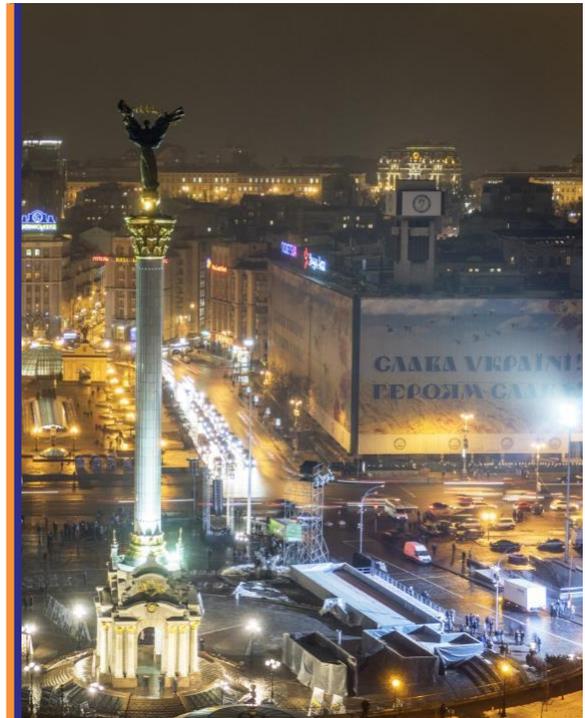
<https://www.youtube.com/watch?v=o40LgnKH5qI>



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