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UNICE STATEMENT ON EU-UKRAINE RELATIONS

I. Introduction

1. Ukraine is a country with significant economic potential. As the figures below show, the relationship of the European Union with Ukraine is important for the economic and political development of both parties. UNICE is increasingly concerned with the economic situation in Ukraine, especially after the Russian crisis. Ukraine has not so far undertaken sufficient economic reforms to restructure its economy and industry to be competitive on western markets, and consequently reduce its dependence on Russia. There is a danger that the country could be forced to default on its debt and might move towards political and economic instability. The need for reform to create a free market economy is urgent but it is frequently impeded by conflict between the executive and the legislature (RADA).

UNICE welcomes the new concrete steps decided at the first EU and Ukraine Summit in Vienna, on 16 October 1998, to strengthen the relationship between the EU and Ukraine, to support the reform process under way in Ukraine, to accelerate progress in approximation of Ukrainian laws with EU legislation and in abolishing barriers to trade and investment, and to facilitate Ukraine's full integration in the international economic system.

2. Ukraine has a highly educated labour force, a large market of 50 million people, fertile agricultural land, 5% of world-wide mineral resources, and a strategic location close to European markets. It also has a relatively stable political situation in contrast with other countries in the region, and a credible record of protecting the rights of its minorities.
3. Ukraine has a GDP of approximately USD 92.5 billion (1996 figure, although GDP growth in 1997 was minus 4%) and it is the third largest recipient of foreign direct investment flows in the New Independent States (NIS) with USD 500 million (after Russia and Kazakhstan). The European Union is currently its largest customer, largest supplier of goods and services and a major investor in the area.
4. After Russia, Ukraine is the major EU commercial partner in NIS. The latest trade figures available (January – June 1997) show that EU exports to Ukraine represent approximately 11% of total EU exports to NIS. During the same period EU imports from Ukraine represented 6% of total EU imports from NIS.

In 1996, EU exports to Ukraine reached MECU 2,620 (17% increase from 1995). The main products exported are machines, machine tools and electrical products. For the same period EU imports from Ukraine reached MECU 1,453 and the principal import sectors are metal products and agricultural products. These trends continued in 1997.

II. Reform under way still insufficient and implementation lags behind legislation

5. Ukraine, like most ex-socialist countries, is implementing a reform programme based on three pillars: macro-economic stabilisation, privatisation and market liberalisation.
6. The pace of privatisation is unsatisfactory, especially compared with the Central and Eastern European associate countries. Privatisation of big industries in sectors such as energy, telecommunications, mining, metallurgy and chemicals is slow. Land reform and privatisation of agro-industrial enterprises need to be accelerated.
7. The banking sector which channels savings into investments is highly inefficient and underdeveloped and faces serious problems such as a lack of competition and consequently high interest rates, weak portfolios, ineffective supervision, lack of transparency and confidentiality. More radical reforms are required for greater flexibility and efficiency of banking services.
8. A great deal has been accomplished on the regime governing external transactions and it is important to avoid the re-introduction of restrictions in the face of strong pressure from protectionist groups.
9. Despite the progress achieved towards reducing inflation and currency stability, these achievements have, however, been at the cost of increasing wage and pension arrears. Further measures should be taken for budget restraint and tighter monetary policy.
10. A major problem which the country faces is the high degree of dependency on energy from Russia. External debt was USD 8 billion in 1996 and half is owed to Russia and Turkmenistan.
11. During the last three years the Ukrainian Government has undertaken a number of important regulatory measures which could form the basis for formulation of a regulatory framework which is necessary to support the country's transition to a market economy. The private sector is not sufficiently developed due to unfair competition from state-owned companies and the non-conducive legal and regulatory framework. The market structure is still monopolistic with a high degree of concentration on a few companies. The European Union should insist on the adherence of Ukraine to existing international rules on subsidies, and on development and implementation of competition in line with European rules.

III. Improving business environment in Ukraine

12. A strengthening of trade, investment and economic co-operation with Ukraine is of major importance to the European business community. Liberalisation of investment must go hand in hand with effective application of the framework regulating foreign investment and the growth of a vibrant private sector.
13. UNICE is of the opinion that the Government of Ukraine needs to pay urgent attention to the following issues:
 - a) Creation of a transparent, stable, reliable and consistent legal and regulatory framework in order to attract investors. More specifically:

- a better framework regarding purchase of land, elimination of ambiguity of property rights and transferability of private property;
 - dispute settlement and the processing of administrative appeals;
 - credible and efficient mechanism for enforcement of contracts;
 - a company law and register that ensures protection of all shareholders.
- b) Acceleration of economic reform, liberalisation, privatisation and deregulation of domestic markets and prices.
 - c) Simplification of customs control procedures and progressive harmonisation of customs rules including rules of origin and effective approximation of customs administration procedures between Ukraine and the EU.
 - d) Acceleration of the process for the removal of all export restrictions (quotas and licences) and reduction of tariffs (on products such as bottled water, fruit juices and citrus fruits).
 - e) Reduction of bureaucratic procedures for the inspection of imports, especially for perishable goods such as fruit and vegetables.
 - f) The requirements for import certification and licensing should be specified with transparency in advance and not be subject to frequent changes of regulations and procedures. Reduction of the large number of various certifications required especially for certain categories of products such as food, electronic and electrical equipment, construction materials and agro-chemicals, chemical household products. The need to harmonise technical requirements and certification procedures with EU law on motor vehicles products is also a priority.
 - g) Compliance with international standardisation and certification rules.
 - h) Full protection of intellectual property.
 - i) Combating corruption and bribery especially in public administration.
 - j) Bankruptcy laws need to be strengthened, and implemented rigorously and speedily.
 - k) Implementation of court orders in order to enhance the trust of investors.
 - l) Adoption of a transparent procedure for public procurement.
 - m) Adoption of a transparent and stable tax system which is presently characterised by inconsistency. Decisions and legislative decrees are issued by different government organisations without co-ordination. Contradictory laws and inconsistent implementation have led to a rapid increase in tax evasion.
 - n) Acceleration of the process for registration of a new company which is usually time-consuming and complicated; there is overlapping of responsibilities between different ministries and consequently unforeseen expenses, quite apart from the high registration

fees. According to a recent study by the International Center for Political Studies (ICPS) registration takes on average 26-55 days while in practice could reach 270 days.

- o)** Conformity of Ukrainian accounting practices with internationally accepted principles. Disclosure of essential financial and operational information of publicly listed companies according to western accounting standards should be made mandatory. Independent auditing procedures should be required and guaranteed.
 - p)** Development of infrastructure especially transport networks, telecommunications and ports.
 - q)** Moreover as far as specific trade barriers for automotive industry products are concerned, it is worthwhile mentioning the following: high excise duty on passenger cars and zero VAT on sale of automobiles produced in Ukraine as well as on imported inputs.
 - r)** A short list with immediate actions should comprise the following top priorities:
 - Immediate steps for reform, privatisation and liberalisation of the economy.
 - An open trading system in compliance with WTO trading rules and regulations.
 - Creation of a legal, regulatory and tax framework to increase flows of foreign capital and foster development of the private sector.
14. Special attention should be paid to the difficulties faced by foreign investors for the repatriation of capital and profits, and to the transfer of capital in convertible foreign exchange.
15. From the point of view of sustainable development, the environment is a crucially important factor between the European Union and Ukraine. Problems need to be resolved such as protection of the marine environment, treatment of toxic waste, combating desertification, development of environment-friendly tourism, etc.
16. Activities linked to energy are also a broad area for economic and business co-operation. Joint projects must be encouraged in the context of transeuropean energy networks.
17. Extension of transeuropean networks is also necessary to improve the inter-regional links which facilitate development and access to the different modes of communication. Co-operation in this field, which represents an important potential for economic activities, will have to play an incremental role in creating an efficient global transport network.
18. UNICE recognises that more actions need to be taken on the EU side to widen European markets for products which Ukrainians can offer. European companies need to facilitate this process.

IV. Policies and measures to support business activities

19. UNICE supports the EU/Ukraine partnership and co-operation agreement and the efforts of Ukraine to become a member of the World Trade Organization. The European Commission must pursue its negotiations with Ukraine in full compliance with WTO rules and disciplines on terms including national treatment, most favoured nation and proportionality principles.
20. UNICE also supports implementation of the 1995 Memorandum of Understanding (including Ukraine's commitment to reform its energy sector) and adoption of measures in support of implementation of Ukraine's commitment to shut down Chernobyl by 2000.
21. The promotion and modernisation of SMEs are important aspects of economic development. They need assistance in the following fields:
 - access to European markets
 - access to finance
 - obtaining reliable consultancy services
 - strategic alliances
 - deregulation and simplification.
22. The European Union and the Government of Ukraine are urged to undertake a series of measures to involve the business sector in Ukraine as regards the participation of local enterprises in projects involving European firms. Such measures must include ready access to attractive financing and management training.
23. Employers' organisations from European countries with the business community in Ukraine will be able to play an important role as a catalyst for business initiatives. It is necessary to organise training programmes aimed at business people, in particular business management, marketing, innovation, quality control, joint ventures and technological development. UNICE attaches great importance to a strengthening of co-operation between industrial federations of Europe and business organisations in Ukraine in the area of training, promotion of joint programmes, communication and business services. In particular European businesses should be prepared to provide on-the-job training within their businesses to young Ukrainian managers.
24. The European Commission needs to link any future support measures as closely as possible to business or business organisations. In this framework, UNICE is of the opinion that:
 - a) creation of a European venture capital fund will support European and Ukrainian joint ventures and mergers and acquisitions;
 - b) creation of a customs single administrative authorisation will facilitate foreign investors' efforts to set up a business activity in the country;

- c) identification of local creditworthy partners is difficult for European companies wishing to develop entrepreneurial activity in Ukraine. Therefore development of a mechanism is proposed, to help European enterprises to gain access to information about local partners, the economic and business climate and prospects in the country, and other information which is necessary for potential European exporters and investors;
- d) technical assistance by the European Commission to improve the functioning and supervision of the banking system;
- e) training programmes on practical issues of international trade should be developed;
- f) European Union programmes should not focus exclusively on support of joint ventures between European and local partners but also on joint ventures between European partners.

V. Conclusion

- 25. Ukraine remains a country of great human and material wealth bordering several of the Central and Eastern Europe candidate countries. For the EU and Ukraine, to realise their great potential for mutual growth, important legal and administrative reforms have to be carried out to remove the numerous barriers to trade and investment which still exist in Ukraine. In this regard the assistance of the EU can only be effective if it is carried out in full agreement and close cooperation and with the active support of the Ukrainian authorities, and in consultation with business on both sides.
 - 26. UNICE is extremely concerned about the risk of an economic crisis in Ukraine resembling that in Russia. The EU should support the Ukrainian government in pursuit of structural reforms, without any further delay, for the successful transition of the country to a competitive economy which will attract foreign investment and contribute to the modernisation process.
 - 27. UNICE attaches great importance to a strengthening of relations with the European Commission through exchange of information on Ukraine and on the problems encountered by European firms in the country, for effective joint action.
 - 28. UNICE would like to discuss its recommendations with the Community institutions and looks forward to increasing its co-operation within the framework of the Partnership Agreement.
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