

The European Union's ENPI Programme for Ukraine

Support for the implementation of the EU-Ukraine Association Agreement / A4U Project

Project Identification No.:

EuropeAid/137074/DH/SER/UA

Contract N: 2015/370-128

DCFTA An. Studies N7 First Mission and Inception Report Inputs for Industrial Dialogue under DCFTA based on Analysis and Business Consultations

Prepared by Stefan F. Moser, STE of the A4U EU Project. It reflects views of the STE only and not the official position of the Project, let alone the EUD.

23 December 2017



This project is funded by
the European Union



A project implemented by Consortium led by
GFA Consulting Group GmbH



Funded by
the European Union

1 *The context*

The A4U Project is designed to address and contribute towards Ukraine's progress in implementing the AA/DCFTA by means of reinforcing existing capacities and improving performance of the Government Office for European Integration (CMU-GOEI) and other central authorities in their coordinated effort to implement economic and sector policies deriving from Ukraine's commitments under the Ukraine AA/DCFTA.

Component 3 foresees amongst others, assisting the CMU-GOEI and line ministries and executive agencies in:

- Strategic planning of the regulatory approximation process;
- Coordination of the overall policy making process related to the AA/DCFTA;
- Facilitation of institutional and structural changes, as required, to ensure effective implementation of the AA, including the DCFTA;
- Rational policy-making and designing and implementation of relevant working tools and methodologies, including analytical capacities of beneficiaries in implications, issues and impact of DCFTA implementation;
- Establishing consultation mechanisms with relevant stakeholders, including Parliament, private sector, and civil society, and adequately addressing their views in the policy-making process.

The beneficiaries of this assignment will be broad based, but largely be focused on developing inputs for the Government of Ukraine for Industrial Dialogue under the DCFTA. Based on request for support from the Verkhovna Rada Committee on Industrial Policy and Entrepreneurship to better understand the issues and constraints facing industrial sectors under the DCFTA, it has been decided to develop a mechanism for dialogue with industry and further analysis as necessary using the auspices of the Committee and then for this committee to submit, discuss and follow the issues raised with the Government (policy makers within GOEEI and Ministry of Economic Development and Trade and line ministries). Whilst initially, the short-term expert will be expected to work with the Committee and the industrial stakeholders (such as major producers and trade associations in each sector, he/she will also need to work with GOEEI and MEDT as the drivers of the DCFTA implementation to take and use the information provided to formulate better policy (that is ensuring a Government response).

The main concept for this assignment is to contribute to informed policy making in the government through: better understanding of the wider issues and implications of DCFTA implementation and; consideration of the opinions and effects on wider stakeholders including Parliament as legislators, line ministries and executive agencies as implementers, business as those who have opportunities, as well as facing cost of compliance and, civil society as beneficiaries of greater integration with the EU.

2 Issues at stake

Following on from the analytical study conducted under the Project identifying Underperforming Sectors under the DCFTA (that is identifying products/sectors where Ukraine's market share in the EU is significantly less than its market share in world markets, despite the substantial benefits of the DCFTA), the Verkhovna Rada Committee on Industrial Policy and Entrepreneurship read this paper and provided positive feedback and requested further work on these issues for industrial products identified. The industrial sectors that are under performing in the EU, despite the presence of tariff preferences under the DCFTA are:

	Ukraine Exports to the World (€ mn)	Ukraine's export to the EU (€ mn)	Share of Ukraine exports to EU compared to share in World imports
1. Pumps for liquids (HS 8413)	149.2	6.7	0.66
2. Electric motors and generators (HS 8501)	88.4	1.1	0.11
3. Taps, cocks, valves (HS 8481)	79.0	5.1	0.74
4. Machinery, plant or laboratory heating equipment (HS 8419)	63.3	3.0	0.65
5. Radar Apparatus (HS 8526)	39.1	0.9	0.16
6. Stoves, ranges, grates, cookers, and parts thereof of iron or steel (HS 7321)	18.3	1.3	0.56
7. Air Conditioning machines (HS 8415)	18.1	0.1	0.10
8. Gas, liquid or electricity supply meters (HS 9028)	17.5	0.03	0.02
	472.9	18.23	

The terms of reference about “A3.2.4 DCFTA analyses and policy papers & A3.3.7 Developing Inputs for Industrial Dialogue under DCFTA based on Analysis and Business Consultations” demand the following activities to be carried out:

- Support the Verkhovna Rada Committee on Industrial Policy and Entrepreneurship to identify key stakeholders in each of the eight sectors and develop a consultation plan based on priorities (essentially rank the sectors for investigation);
- Organise, under the auspices of the Committee, at least **5 round table discussions** with stakeholders and assist in the preparation of briefing paper detailing issues;
- Where appropriate **assist industry bodies** such as trade associations or chambers of commerce to research, compile and articulate problems and needs of the sector;

- Based on the **briefing paper**, research and investigate the highlighted issues both to **validate and gather supporting evidence** (could include inputs from industry, surveys, statistical analysis and other research as appropriate);
- **Following submission to the Government of Ukraine from the Committee**, of analytical papers on the constraints to trade under the DCFTA for each industrial sector, **support Government in formulating a response** (either GOEEI or MEDT) which could include written responses, meetings with the Committee and/or industry and should include a number of solutions to the problems identified including policy options, remedies and industrial dialogue with the EU;
- Based on the Government response, the Committee (either jointly with Government or independently) to present and discuss the Government response/proposals with stakeholders to obtain validation/buy in;
- Establish action plan monitoring by Committee to track commitments and progress and provide reports to stakeholders (holding government to account on actions promised) and;
- For sectors not completed within life of the assignment, prepare and agree a future workplan on industrial dialogue under the DCFTA with the Verkhovna Rada Committee on Industrial Policy and Entrepreneurship.

3 Barriers to Trade of underperforming Sectors and Products

Overall Approach

The reasons behind the underperformance of specific export sectors under the DCFTA that have significant global exports could be varied. These could be related to policies in Ukraine, the DCFTA regime itself, internal industrial problems in Ukraine or market issues within the EU. To determine and resolve these constraints, the GoU needs to discuss and discover what these issues are through a business consultation process. Once it has identified the probable causes, then GoU can consider how to resolve or ease these problems, including discussions with EU at trade and industrial dialogue committees, internal policy changes or business support measures (such as promotion, education or other). In reality, it is expected to be a complex of factors that limit the export potential.

Therefore, in determining the policy approach of the Government to remove barriers to trade under the DCFTA, it is recommended that GoU establish a number of business consultations with each sector (through trade associations, Chambers of Commerce etc) to ascertain the causes of underperformance.

The agenda of the first consultation with each sector could comprise:

1. Introduction to the DCFTA (opportunity under the DCFTA: market access and alignment)
2. Underperformance and key data regarding the sector being analysed (see Sector Pages in Appendix 6)
3. Discussions on potential barriers in that sector (see Potential Issues below)

Table: Potential issues to be discussed

The following are a checklist of issues to be discussed with business during talks to identify

Business Enabling Environment in Ukraine

1. Access to finance (cost, availability, term)
1. Access to land
2. Business licensing and permits
3. Corruption
4. Courts
5. Crime
6. Customs and trade regulations
7. Electricity/Energy (cost, reliability and availability)
8. Inadequately educated workforce
9. Labour regulations
10. Political instability
11. Practices of competitors in the informal sector
12. Tax administration
13. Tax rates
14. Internal Transport (cost, network, infrastructure)

Preferential market Access Barriers

1. Persistence of tariff barriers in EU market (high staging)
2. Inadequate TRQ levels
3. Reduced tariff but little margin of main competitors in the EU market
4. Entry Prices on Imports
5. Existence of Levy
6. Inability to comply with DCFTA rules of origin to gain preferences (would EU/Pan Euro Med countries provide competitive source?)
7. Obtaining certification is onerous

Regulatory Compliance with SPS/TBT

1. Lack of understanding of requirements
2. Ability to comply with requirements
3. No authorisation to export (products of animal origin)
4. Lack of access to affordable testing/certifying bodies
5. Acceptability (legal and market driven) of Ukrainian accredited testing laboratories, designated bodies and

Trade Facilitation Issues

1. Time to pass through border (delays) and reasons (eg port congestion versus bureaucracy)
2. Cost to pass through borders
3. Ease of Documentary procedures to export (number, cost, time and ease of compliance)
4. Available and cost of facilities at ports/border (storage, cold chain)
5. Access to required approvals at border (eg designated borders for agricultural products for best transport routes, cost, working hours)

Competitiveness Issues

1. Costs and inputs benchmarking
2. Labour productivity (output versus cost)
3. Technologies
4. Scale of production
5. Labour availability
6. Cost/availability of raw materials

Market Requirements/Standards

1. Existence of private market standards (costs, understanding and compliance issues)
2. Buyer requirements (minimum quantities, quality assurance or design)
3. Image of Ukraine (acceptance of accredited certificates)

Marketing/Promotion problems

1. Availability of trade information
2. Understanding of marketing strategy for segment
3. Marketing skills
4. Costs of promotion
5. Language

Following these discussions, and based on the data and any further analysis (to confirm the issues raised by business), GoU should develop policies to address these constraints. These would include internal policies, but also take full advantage of the

mechanisms within the DCFTA to resolve such implementation issues. A second consultation with business (same constituent to ensure consistency) would explore the viability of these policies.

The agenda could comprise:

1. Recap on under-performance
2. Validation of barriers identified in previous meetings (with any additional analysis undertaken by government)
3. Presentation of proposed approaches to resolve these issues
4. Discussions and opinion of business.

The GoU would then work with policy lead Ministries within government, as well as other stakeholders, in a sector working group to develop actual policies to address these constraints. These would be cross government and non-government as appropriate. The GoU would then discuss and refine actual policies in discussion with business.

The agenda could comprise:

1. Overall of the Problems and constraints previously discussed
2. Presentation of detailed policy proposals to address constraints and promote exports
3. Validation and refinement of policies

Based on inputs from business, GoU may further refine its policies.

4 Foreseen Outputs

- 5 business consultation events in five priority sectors to identify constraints limiting exports under the DCFTA;
- 5 Analytical studies providing evidenced based constraints;
- At least 3 follow up consultation events with solutions/responses from government;
- Guideline for government responses to industrial development submissions;
- Guideline and methodology for the Verkhovna Rada Committee on Industrial Policy and Entrepreneurship to monitor progress;

6 Inception phase

The expert held a first mission from 13 to 22 December 2017 on an intermittent basis (6 working days).

The mission started with an internal briefing meeting and with the Export Promotion Office (EPO) of MEDT. All people met are reflected in **Annex 9.1**. During this mission, it was unfortunately not possible to meet Mr. Anatolii Grishfeld, Executive Director of the National Industrial Development Committee and MP of Verkhovna Rada, “mentor” of the current assignment.

The expert could meet Mr. Lowack, representative of the “European Office” of the Ukrainian Chamber of Commerce and Industry (UCCI), on 20 December 2017. The UCCI is one of the “big four” active players from the private side (the other three would be European Business Association, AmCham and the Ukrainian Metallurgy Association). They have an extended network as they are represented in all provinces of Ukraine. UCCI at the moment focuses on light industries, i.e. textiles/garment, shoes and furniture. In a near future, there might be an orientation towards wood processing, and, where a convergence could be found with the project activity, to machinery sector. About the heavy industries sector, he points out that usually they are technologically not able to compete on the European market and neither to make the technological change.

Some meeting notes can be found in **Annex 9.2**, i.e. about the first meeting with the MEDT EPO. The expert met then the EPO for a further talk on 21 December 2017. The EPO, as already pointed out, is very interested to hold common round-tables with selected industries. There might be however a different selection of sectors, as the EPO focuses mainly on the ones identified by the export strategy developed and adopted earlier this year.

Interestingly, to identify export problems of enterprises, EPO first priority is to search for the relevant market (as there might be even differences in the EU), and only in a second stage, addresses then the export constraints.

EPO points out that Vice-Minister Mykolska is usually chairing those meetings. Topics or issues to be discussed are collected ahead of the meetings, consequently the agenda adapted to those. MEDT then also tries to arrange already certain answers to eventual problems raised, and/or invite the competent agencies or Ministries. There could be convergence to hold at least one event in the Eastern Part of Ukraine, near Mariupol, where also heavy industries, as identified in the study on underperforming sectors, are based.

7 Targeted Sectors

- **Mechanical heavy industries**, specifically foundries, as they are often connected to the production of heavy equipment, i.e. pumps; machinery, plant or laboratory heating equipment; Taps, cocks, valves; **and related industries**: i.e.. producing Gas, liquid or electricity supply meters;
- **Electrical – electronic heavy industries**: electrical motors and generators; radar systems
- **Appliances**: Stoves, ranges, grates, cookers, and parts thereof of iron or steel; Air conditioning units;

8 Next mission(s)

The mission planning is attached in the Annex to this report. The next mission is planned from **22 January to 9 March 2018** (35 WD). The third mission should be held from April or early May, to be decided and upon the different holidays in Ukraine.

Importantly, EPO should work out and submit new terms of reference for the recruitment of junior fellows, to work with EPO. At the same time, the new fellows would be also tasks concerning industrial dialogue.

The tasks for fellows would entail above all, research about the specific enterprises, communication and follow-up with them, helping in arranging round-table discussions and following up the problems and issues raised with EPO, as well then with MEDT.

To-do list:

- **Advance ToRs and search for MEDT Fellows** (for EPO principally) and for helping industrial dialogue and might secure basic interpretation for the expert during such events; ideally, two fellows should work on industrial dialogue.
- **Secure budget for business round-tables** and trips outside Kiev;

9 Annexes

9.1 *Contacts and meetings inception period*

CONTACT DETAILS	TOPIC	DATE
MEDT (Ministry of Economic Development and Trade of Ukraine): Export promotion office	Introduction meeting Coordination meeting	13 December 2017 21 December 2017
A4U: Mr. Mark Hellyer, Component 3 Expert	Briefing, project outline, implementation, industrial reality check, possible stakeholders identification	18 December 2017
UCCI: Ralf Lowack European Office - Project Coordinator Ukrainian Chamber of Commerce and Industry 33, vul. Velyka Zhytomirska Kyiv, 01601 Ukraine phone: +380 44 584 2829 mob. phone: +380 50 355 7900 e-mail: l-ier@ucci.org.ua / ralf.lowack@web.de internet: www.ucci.org.ua		

9.2 Annex - Specific Reports

EXPORT PROMOTION AGENCY (EPO) OF MINISTRY OF ECONOMIC DEVELOPMENT AND TRADE (MEDT)

DECEMBER 14, 2017

17:00

A4U PROJECT OFFICE

TYPE OF MEETING	Presentation of EPO and A4U – fostering synergies
PARTICIPANTS	EPO/MEDT: <ul style="list-style-type: none">- Maryana Kahanyak, Director, EPO (MK)- Tanya Miskova, Education & G2B Unit lead, EPO- Dmytro Nosov, Market Intelligence Unit Lead, EPO- Olena Melnyk, Directorate on European Integration (MEDT)
	A4U: <ul style="list-style-type: none">- Janos Zakonyi, Team Leader (JZ)- Stefan Moser, STE Industrial Dialogue (SM)

1. Introduction

JZ welcomes EPO in the A4U premises and reiterates the flagship assistance of the project, which is the fellowship program.

MK introduces the EPO (main functions can be found at: <https://epo.org.ua/en/>). EPO does several functions harnessing the contact between business and Government and provides trade intelligence. As a “consultatory” body, they hold regular meetings with business, do export consulting, elaborate business strategies, etc.

2. Synergies for industrial dialogue

EPO also tries to assist business operators through the B2G platform, collects and forwards inquires & problems to the MEDT (there, Department of Export Development, headed by Maxim Bondar). The latter then distributes the inquiries to the competent offices, Departments or Ministries. In principle, this Department will also collect the replies and send back to EPO, which, on their turn, will inform the business operators. The EPO also consults regularly with the State Fiscal Services (Customs).

Related to the regular meetings with businesses, in Kiev but also in the provinces, there might be a great opportunity for using synergies for the consultation of sectors under the mandate for industrial dialogue (SM). The EPO holds regular consultations, or according to export related industry (industrial sector based), or country-based.

Interestingly, MEDT keeps track of the “F.A.Q.” about all kind of export-related problems, and also publishes them on the homepage of the MEDT.

A follow-up meeting will determine the *modus operandi* of the eventual business events and consultations under the industrial dialogue component and EPO.

3. Fellows - Information - Helpdesk

MK is well aware of the fellowship program, as EPO recently hired a fellow. She expresses great interest into the program and would welcome new fellows. At the moment, there is one fellow left at the EPO.

JZ sees also potential to explore related to fellows working on information and helpdesk issues.

JZ also asks if EPO has contacts to GOEEI, which MK denies. He then draws the attention of EPO to the publications made by GOEEI, Ivanka Klympush’s office, which published several “brochures” concerning the Association Agreement. Publications should be reprinted shortly, again with funding from A4U. He also mentions the fund given to GOEEI to hold “breakfast”-events on Association Agreement related matters.

4. Outcomes – to do:

- **A4U to foster, try to find and recruit fellows for the EPO;**
- **EPO to revise and submit to A4U the terms of reference for the recruitment of fellows;**

Processed:

- Follow-up meeting SM with EPO, to fine-tune synergies for the business events (round-tables) and industrial dialogue development; - fixed for Thursday, 21 December, 15:00
- Terms of reference on Industrial Development (and on overarching assignment of Mark Hellyer) – shared already
- Link to the Encyclopaedia – shared

http://www.kmu.gov.ua/control/en/publish/article?art_id=248801930&cat_id=244314975

9.3 Annex – Mission planning

	2017	2018						
	December	January	February	March	April	May	June	(July)
Activity:								
Kick-off consultations	15 - 22 Dec: Kick off / Inceptiona							
Collection of data / organisation		xx						
Kick-off consultations with private sector			Kiev, and Western Ukraine					
Business Events / Round Tables (at least 5, ev. 6)(Kiev or provinces, where industry sits)			Kiev, and Western Ukraine		Tour in Eastern Ukraine			
Validation of industry feedback with Verkhovna Rada Committee and Presentation of proposed approaches; submission to MEDT/GOEEI of analytical papers					xx	xxxx		
GoU Updates on actions and policies, setup of consultation mechansim and feedbacks						xxx	xx	

Follow-up events and sustainability of GoU feedback culture (Fellow)							xxx	
--	--	--	--	--	--	--	-----	--

9.4 Budget needs

ToR requires:

- 5 business round-tables
- 3 Follow-up events / round tables (each including 2 coffee breaks and lunch)

With each 20 participants

8x 20 x EUR 35.— (including 2 coffee breaks and lunch) **EUR 5'600.—**

Translation during round tables/Documents: to be determined

(depends on fellows recruitments status)

Worst case scenario:

Consecutive interpretation during 8 working sessions: 8x EUR 250=
EUR 2'000.—

Translation of documents: in-house of project office

Trips in Ukraine: **EUR 600.--**

OVERALL TOTAL BUDGET: EUR 8'200.—

9.5 Project response to Mr. Grishfeld



Letter to Anatolii
Girshfeld.pdf