



Mr Fredrik Reinfeldt
Prime Minister
Prime Minister's Office
Rosenbad 4
SE-103 33 Stockholm
SWEDEN

1 December 2009

Dear Prime Minister,

As you plan for the EU-Ukraine Political Summit, I would like to highlight the importance of strengthening cooperation to deepen economic integration between our two economies. We are acutely aware of the importance of EU-Ukraine relations to help achieve political stability, strong economic growth and prosperity for both our economies. BUSINESSEUROPE is a strong supporter of the EU-Ukraine free trade negotiations and the Eastern Partnership which includes Ukraine to facilitate business development for both European and Ukrainian companies. In that context, I would like to highlight some essential challenges that European business as exporters and investors perceive in Ukraine.

First, we are deeply preoccupied with the extent of the financial and economic crisis in Ukraine. A further deterioration of the economic situation could bring tremendous economic hardship in Ukraine. We strongly support EU efforts to support the Ukrainian government to stabilise the situation – especially to address the country's pressing financial problems.

Second, we strongly encourage the EU to step up cooperation with Ukraine on energy issues to find a permanent solution to the Russo-Ukrainian gas crises that have led to gas shortages in the EU. In addition to the constructive progress that the EU has made with Russia and Ukraine to deal with immediate payment and transit problems, a medium term strategy must be put into place to vastly increase energy efficiency in Ukraine – one of the most energy intensive countries in the world due to subsidised energy prices – and to use European technology to extract gas that is still present in the Ukrainian subsoil.

Third, we are very concerned with the deteriorating business climate in Ukraine which is making the country less attractive for European companies. The main challenge lies in reducing corruption which is undermining the functioning of the administration and justice system. The worsening business climate is compounded by the slow progress in introducing fair competition on the market where former state monopolies have been replaced by privately owned ones whose business practices are far from the European norm. EU support to implement a strong anti-corruption policy, judicial and administrative reform, effective corporate governance, clarity on the issue of property ownership, strong protection, monitoring and enforcement of intellectual property rights, full implementation of competition law, transparency for permits required for investments and development projects and improvements to the functioning of the



customs service would go a long way to improving the situation for both local and European companies operating in Ukraine. Moreover, excessive delays in the refund of value added taxes for exports are making it increasingly challenging to export oriented manufacturers to earn profits. Reflection should also be given to optimising the dispute settlement procedure of a future EU-Ukraine free trade agreement to provide EU investors with adequate legal protection. EU technical support for Ukrainian business associations could improve their organisation and play their role in promoting a sound business environment could also improve the situation.

Fourth, we are concerned about the uncertainty surrounding Ukrainian trade and customs policy. Since joining the WTO and entering into free trade negotiations with the EU, Ukraine's trade policy rules (including tariffs, trade regulations, as well as drug pricing regulations) have fluctuated regularly and significantly. Tariff rates currently differ from Ukraine's accession protocol in a number of sectors and Ukraine continues to use export restrictions on raw materials. It is also unfortunate that Ukraine has raised tariffs again to stabilise its economy heavily affected by the crisis without following WTO exceptional rules on balance of payments crises. The unstable tariff policy is compounded by the inefficiencies and corruption problems in the Ukrainian customs service. We hope that the Ukrainian government will make its trade policy more predictable for business through the EU-Ukraine free trade negotiations.

Unfortunately, the economic and financial crisis in Ukraine renders reforms more challenging. The EU, whose credibility and standing in Ukraine remains very strong and whose ability to assist in addressing some key challenges is very real, should use the opportunity of the Political Summit to address these important issues with the Ukrainian President and government.

Yours sincerely,

Best regards,

Philippe de Buck