

**Identifier**

08KYIV2017

Created

2008-10-10 06:46:00

ClassificationUNCLASSIFIED//FOR OF
FICIAL USE ONLY**Origin**

Embassy Kyiv

Cable title: 1ST MEETING OF U.S.-UKRAINE TRADE AND INVESTMENTTags: [ETRD](#) [WTRO](#) [PREL](#) [UP](#)[how-to read a cable](#)[Show metadata](#)

UNCLAS SECTION 01 OF 04 KYIV 002017

SIPDIS

SENSITIVE

STATE FOR EUR/UMB, EB/TPP/BTA, EB/TPP/MTA
 STATE PLEASE PASS TO USTR FOR CKLEIN, PBURKHEAD, EPORTER
 USDOC FOR 4201/DOC/ITA/MAC/BISNIS
 USDOC FOR 4231/ITA/OEENIS/NISD/CLUCYK
 USDA FOR FAS/ONA (KRAMOS, AMANNIX, MSALLYARDS)
 USDA FOR FAS/OCRA (JFLEMINGS)
 GENEVA FOR USTR

E.O.: 12958: N/ATAGS: [ETRD](#) [WTRO](#) [PREL](#) [UP](#)SUBJECT: 1ST MEETING OF U.S.-UKRAINE TRADE AND INVESTMENT
COUNCIL ADVANCES BILAT ECONOMIC RELATIONSREFS: A) KYIV 1875

B) KYIV 1330

C) KYIV 1146

D) KYIV 964

1. (SBU) Summary: The inaugural meeting of the U.S.-Ukraine Trade and Investment Council, created by our new bilateral Trade and Investment Cooperation Agreement (TICA), took place on October 2. Deputy U.S. Trade Representative John Veroneau led the U.S. delegation; Minister of Economy Bohdan Danylyshyn headed the Ukrainian side, with reps from all major GOU agencies participating. Ambassador Veroneau urged progress on a range of bilateral issues, including WTO accession implementation, opening the Ukrainian market for biotech products, enforcing contracts, solving the OPIC dispute, reforming the tax system, ensuring national treatment in electronic payment systems, and combating internet piracy. The Ukrainian side asked for USG help in ending some U.S. anti-dumping orders against Ukrainian producers, upgrading the FAA's designation of Ukraine's State Aviation Administration to CAT 1, and upgrading Ukraine's OECD export credit rating. The GOU also proposed negotiating a new U.S.-Ukraine Customs Cooperation Agreement. The TICA calls for the Trade and Investment Council to meet no less than once a year. End Summary.

2. (U) While in Kyiv, Ambassador Veroneau held side meetings with Danylyshyn and Ukraine's lead trade negotiator Valeriy Pyatnytskiy, and was interviewed by the prominent weekly journal Invest Gazeta. Alongside the Trade and Investment Council meeting, USG and GOU officials participated in a forum with local and international business reps. Morgan Williams, President of the U.S.-



Ukraine Business Council (USUBC), delivered a passionate criticism of Ukraine's investment climate at the forum and urged the GOU to improve its cooperation with business.

3. (U) The following were the major topics raised at the Trade and Investment Council and other meetings.

WTO Accession and EU FTA

4. (U) Ambassador Veroneau congratulated Ukraine on completing its accession to the WTO, while at the same time urging the GOU to complete the few WTO commitments still outstanding (ref B). Danylyshyn thanked Ambassador Veroneau for USG support of Ukraine's accession and emphasized Ukraine's interest in further integration with the European and global economy, including through a Free Trade Agreement with the EU (ref A). Ambassador Veroneau responded that the USG viewed Ukraine's increasing economic ties with Europe as a positive development.

Agricultural Issues and Biotech

5. (U) Danylyshyn and Yuriy Luzan, Deputy Minister of Agriculture, described recent progress in agricultural development and argued that Ukraine had the potential to be among the world's largest food suppliers. Luzan recognized the importance of U.S. investment in this sector and called for increased cooperation on issues like biofuels and market infrastructure.

6. (SBU) Ambassador Veroneau agreed, and argued that agricultural biotechnology could play an important role in helping Ukraine to realize its potential. He reminded the GOU of its commitment under our bilateral WTO Market Access Agreement to open its market for biotech products and asked for an update on efforts to establish the appropriate regulatory system. GOU reps dodged the question, but, when pressed, noted that they had just conducted a roundtable with U.S. officials on biotech issues and claimed that work on the necessary regulations was moving forward. Luzan added that a new law needed to move through Parliament, which could delay things until next year. (Comment: Luzan's comments were concerning, as Ukraine already has the necessary legislation in place and only needs to issue implementing regulations to open the market. Luzan may

KYIV 00002017 002 OF 004

have been referring to a draft law requiring labeling for biotech products, an initiative thus far successfully opposed by the Ministry of Economy. End Note.)

7. (SBU) Pyatnytskiy, both during the Council meeting and privately with Ambassador Veroneau, noted GOU concerns that a new biotech regulatory system could create market access problems for Ukrainian producers. The EU and Russia, Ukraine's major export markets, had drastically different rules, said Pyatnytskiy, and he asked for U.S. understanding as the GOU proceeded cautiously on biotech. (Note: Pyatnytskiy repeated this logic at a meeting hosted by the World Bank on October 7. End Note.) Ambassador Veroneau argued that the EU biotech regulatory system was not WTO compliant and reiterated the importance of Ukraine's commitment to open its market.

Investment Promotion Efforts

8. (U) Danylyshyn and Ambassador Veroneau agreed on the importance of foreign investment for Ukraine's continued economic growth. Danylyshyn noted that the GOU had created a permanent Council of Investors charged to advise GOU leadership on investment climate issues, and he cited rising levels of FDI in recent years.

9. (SBU) Ambassador Veroneau highlighted the rule of law as especially important for the investment climate. While not engaging on the substance of the case, Ambassador Veroneau raised the government's nullification of a Production Sharing Agreement with Vanco International (refs C-D) as an example of how failure to uphold contracts can scare away potential investors.

OPIC

10. (SBU) Ambassador Veroneau emphasized the importance of solving the long-standing dispute that has prevented the Overseas Private Investment Corporation (OPIC) from operating in Ukraine. Danylyshyn affirmed the GOU's resolve to find a solution, the details of which he said he hoped could be worked out by year's end. Deputy Minister of Economy Victor Panteleyenko, who has the lead on this issue within the GOU, briefed the group on recent progress. He said the eventual solution would contain two distinct parts: a Memorandum of Understanding between the GOU and USG; and a settlement of OPIC's commercial dispute. Panteleyenko noted that Deputy Prime Minister Hryhoriy Nemyrya had tasked him to finalize the bilateral MOU as soon as possible.

Tax Reform and VAT Refunds

11. (SBU) Yuriy Gladun, head of the International Relations Department of the State Tax Administration (STA), reviewed GOU efforts to increase transparency in the tax system. Ambassador Veroneau praised the GOU for improving its reimbursement of VAT to U.S.-owned exporters, and encouraged further reform to ensure debts to exporters would not accumulate in the future. Gladun noted that the STA was moving to an electronic system that should institutionalize speedier VAT reimbursement.

Electronic Payments

12. (SBU) Paul Burkhead, USTR Director for Europe and the Middle East, raised U.S. concerns about new regulations requiring banks that wish to bid on Ukrainian government contracts for issuing state employee salary cards to join the National System of Mass Electronic Payment (NSMEP). Burkhead and Ambassador Veroneau asked the GOU to review this new policy to ensure that it did not discriminate against foreign financial services providers.

Customs Reform

KYIV 00002017 003 OF 004

13. (SBU) Igor Pikovskiy, First Deputy Chairman of the State Customs Service, reviewed Ukraine's efforts to reform Customs operations in line with international best practices. He noted that our bilateral Customs agreement dated to Soviet times, and proposed that we launch negotiations on a new U.S.-Ukraine Customs Cooperation Agreement. (Note: Ukrainian Customs has increasingly approached Embassy of late with requests for cooperation and information sharing, but this was the first time such a proposal was made. End Note.) Ambassador Veroneau said he would have to consult with U.S. Customs and Border Protection before responding to Pikovskiy's proposal. Ambassador Veroneau also encouraged the GOU to ease unnecessary restrictions currently faced by express mail operators in Ukraine.

Anti-Dumping Orders on Ukrainian Exporters

14. (SBU) Sergiy Gryshchenko, Deputy Minister of Industrial Policy, and Natalia Sydoruk, deputy head of the Ministry of Economy's Anti-Dumping Department, raised concerns regarding long-standing U.S. anti-dumping orders on some Ukrainian exports, particularly steel products and fertilizers, in place since before Ukraine achieved market economy status. Ambassador Veroneau recognized the importance to Ukrainian industry, but noted that U.S. trade remedy laws were consistent with WTO rules and among the most transparent in the world.

15. (SBU) Christine Lucyk, Senior Policy Adviser from the Department of Commerce, briefed on a recently signed, market economy-based agreement with Ukrainian steel producers that would come online on November 1. Lucyk also noted that the Department of Commerce and the International Trade Commission (ITC) had just hosted a team of GOU officials during the week of September 22 to help explain U.S. trade remedy laws. Sydoruk thanked the USG for engaging on this issue, and invited reps from Commerce and the ITC for a follow-on session in Ukraine and to meet directly with the Ukrainian companies affected.

Aviation

16. (SBU) Kyrylo Polishchuk, Deputy Chairman of the State Aviation Administration (SAA), reviewed GOU efforts to improve aviation safety in Ukraine. Polishchuk made a plea for the U.S. Federal Aviation Administration (FAA) to reconsider its current Category 2 designation of the SAA. (Note: The FAA downgraded the SAA from CAT 1 to CAT 2 in

2004. End Note.) USUBC rep Williams argued at the business forum that the GOU needed to seriously address FAA and International Civil Aviation Organization (ICAO) concerns in order to move up to CAT 1, which is necessary to open new flights between Ukraine and the United States.

17. (SBU) Ambassador Veroneau applauded Ukraine for opening its market to low-cost airline Wizz Air and urged speedy ratification and implementation of the Cape Town Convention on International Interests in Mobile Equipment.

OECD Credit Rating

18. (SBU) Volodymyr Lytvyn, Deputy Minister of Finance,

complained that Ukraine's poor score (five on a scale of zero to seven) on the OECD's export credit rating (i.e. the OECD's Country Risk Classification) made it hard for Ukrainian firms to purchase equipment from U.S. companies. Lytvyn asked for USG support in achieving a revision of the OECD rating. Ambassador Veroneau said he would look into the matter to determine what was holding Ukraine back.

IPR

19. (U) Ambassador Veroneau praised Ukraine for improved

KYIV 00002017 004 OF 004

enforcement of intellectual property rights in recent years. He encouraged the GOU to continue the progress, especially in new areas of concern like internet piracy.

GSP

20. (U) Ambassador Veroneau mentioned USG willingness to help Ukrainian exporters take advantage of the General System of Preferences (GSP) program allowing duty-free import of some products to the United States. Marideth Sandler, Executive Director of the GSP program at USTR, gave a well-received presentation on the program during the business forum on October 3.

Next Council Meeting

21. (U) The TICA calls for the Trade and Investment Council to meet no less than once a year. Danylyshyn said he hoped the next meeting would take place in Washington sometime in

2009.

22. (U) USTR has cleared on this cable.

TAYLOR

Website pages

