



**U.S.-UKRAINE BUSINESS COUNCIL (USUBC)
WASHINGTON, D.C.**

"A strong international voice for business in Ukraine"

1300 I Street, N.W., Suite 720 W
Washington, D.C., 20005

April 13, 2011

The Honorable Jon Kyl
730 Hart Senate Office Building
United States Senate
Washington, DC 20510

Dear Senator:

Ukraine historically has been called "the breadbasket of Europe." Ukraine today has the exciting potential to produce, process and sell a huge "foodbasket" of high value food products to the world's hungry and not continue to be a "breadbasket" marketing low value products.

United States agribusinesses have been working and investing heavily in Ukraine since the early 1990's, when Ukraine became independent. Significant investments have occurred in such areas as grain buying, handling and marketing, grain storage facilities, oilseed processing plants and selling crop protection supplies, seeds, and agricultural equipment.

However, Ukraine has been a difficult market to work in and U.S. investment in Ukraine has not been nearly as large as originally expected. U.S. companies continue to work in Ukraine as the potential is so huge. Agribusiness development today is widely known as Ukraine's most promising industrial sector.

Unfortunately the overall business environment in Ukraine for agribusiness development has been moving rapidly, during the last nine months, in exactly the wrong direction.

The environment is being severely restricted, to the point of monopolization.....not opened and expanded, by the new government. An environment for rapid growth is not being created...in reality the situation has dramatically worsened and is causing severe issues and problems for U.S. companies.

POLICIES OF THE NEW GOVERNMENT SINCE AUGUST OF 2010:

1. VAT SYSTEM – the Ukraine's Value added tax (VAT) system remains nontransparent, subject to manipulation and corruption. There has been pressure on international exporters from tax authorities and the legal/security services threaten criminal charges for alleged violations in the supply chain. Automatic reimbursement of VAT will not apply to all market participants and VAT arrears are again growing to huge amounts of

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money owed by the Ukrainian government to investors. Huge amounts of past VAT refunds were not paid back in cash but paid last September in five years bonds that had to be immediately discounted by up to 20% when sold in the financial markets causing large losses for US companies.

2. EXPORT RESTRICTIONS - a whole series of export and other market restrictions have been introduced since August of 2010 and the justification for such restrictions and subsequent quota allocations lack any sort of transparency or accountability. Most international traders (such as from the U.S.) have been excluded from receiving quotas and thus cannot sell their commodity stocks on the export market. Corruption is the driving force behind these government actions. These restrictions have also caused huge losses for U.S. companies.

3. MONOPOLISTIC STATE CONTROL - several additional programs have been put in place through government regulations which allows the government to monopolize and restrict several key points in the value added food chain, including grain exports, seed imports, cane sugar imports, detention of grain ships, and forcing local commodity sales at below market prices.

Also several laws that give the government monopolistic power have been introduced in the Parliament and unbelievably are being given serious consideration. Government and government insiders stand to benefit from such actions at great cost to the agricultural economy of Ukraine. Such actions are also subject to a whole range of corrupt activities.

These policies and actions by the new government are discriminatory and corrupt. They have already severely disrupted and caused huge losses in the entire food chain from field to table...from production to consumption. U.S. companies have taken a severe hit. Their assets have dropped in value and the assets are at risk of a de facto expropriation.

Hundreds of millions of dollars of losses have been incurred by farmers, domestic and international agribusinesses, and other businesses in the food chain. Such actions have lowered internal market prices to artificially low levels, disrupted normal marketing practices, and caused a reduction in financing and forward contracting for the 2011 crops.

Industry experts estimate that the farmers' direct losses due just to export restrictions for the 2010/2011 marketing year will total over two billions dollars. Estimated losses in the entire food chain in Ukraine could reach the five billion dollar level. The long-term losses could reach ten to fifteen billion dollars or more if present practices continue.

URGING POSITIVE REFORM ACTIONS

Most of the major players in the domestic and international agribusiness and financial industry in Ukraine, including U.S. companies/investors, are strongly urging the Ukrainian government to review their actions regarding the agribusiness environment, to stop the disruptive and costly programs and to change course as soon as possible.

Ukraine is being urged to begin moving once again to implementing major reforms which improve the prospects for agricultural development such as:

- improving the rule of law,
- encouraging domestic and international private investment,
- raising confidence levels by bringing international standards and normal stability to agricultural markets,
- opening a real dialogue with the private sector,

- eliminating corruption in the sector,
- providing new market tools such as pledges of long-term leases, warehouse receipts, pre-harvest financing, hedges, real commodity exchanges, crop insurance and other such positive actions.

The people of Ukraine need and deserve an abundant supply of high quality, reasonably priced, food products. Europe (including Russia) needs the same. The world is counting on and urging Ukraine to do its part to substantially increase the world's food supply in the next 15 years to feed the growing population.

The amount of high value, high quality food products Ukraine could produce in the next 15 years is staggering.....more than double what is now being produced. The amount of food the world needs and wants to buy from Ukraine is also staggering. All of which will produce needed jobs for Ukraine, income for the people, taxes for the government, wealth for Ukraine, overall economic growth and prosperity all the way down to the village level.

Everyone knows the potential for rapid economic growth in the agribusiness sector is fantastic. Hopefully the people and leaders in Ukraine will find the political will to make this happen now... changing the word 'potential' into 'reality.' These are goals worth fighting for.

UNITED STATES AND THE INTERNATIONAL MONETARY FUND (IMF)

During the past year U.S. Vice President Joseph Biden, U.S. Ambassador to Ukraine John Tefft, and other top US government officials have been raising these critical anti-competitive, anti-private market, anti-investor issues with Ukrainian President Viktor Yanukovich and his top government officials.

In July of 2010 the International Monetary Fund agreed to provide approximately \$15 billion in loan assistance spread over about 2.5 years if certain policy reforms and monetary and financial objectives were met by the government of Ukraine. Over \$3 billion has already been disbursed to Ukraine with another disbursement now pending.

We suggest that the U.S. government, as the largest investor in the IMF, ask the IMF to review the destructive and discriminatory business environment policies of the government of Ukraine, especially in the agribusiness area, and make a reversal of these policies a pre-condition for any further support from the IMF.

These policies are discriminatory and contrary to the values of free enterprise and fair competition. They are destructive for U.S. companies and investors and as long as they persist, we do not believe further IMF support to the government of Ukraine is defensible.

Sincerely,

ON BEHALF OF THE USUBC AGRIBUSINESS COMMITTEE



E. Morgan Williams, President
U.S.-Ukraine Business Council (USUBC)