HARMONISATION OF PUBLIC PROCUREMENT SYSTEM IN UKRAINE WITH EU STANDARDS

REPORT ON STATE AID REPORTING REQUIREMENTS

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**ABBREVIATIONS**

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<th>Abbreviation</th>
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<tr>
<td>AMCU</td>
<td>Anti-Monopoly Committee of Ukraine</td>
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<td>AoA</td>
<td>Agreement on Agriculture</td>
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<td>ECT</td>
<td>Energy Community Treaty</td>
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<td>EEC</td>
<td>European Economic Community</td>
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<td>EU</td>
<td>European Union</td>
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<td>GATS</td>
<td>General Agreement on Trade in Services</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GBER</td>
<td>General Block Exemption Regulation</td>
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<td>OJ</td>
<td>Official Journal</td>
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<td>SANI</td>
<td>State Aid Notification Interactive System</td>
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<td>SARI</td>
<td>State Aid Reporting Interactive System</td>
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<td>SCMA</td>
<td>Subsidies and Countervailing Measures Agreement</td>
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<td>SMEs</td>
<td>Small and medium enterprises</td>
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<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
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<td>TRIMS</td>
<td>Agreement on Trade-Related Investment Measures</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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EXECUTIVE SUMMARY

The EU funded Project “Support for the Development of the Public Procurement and State Aid Systems of Ukraine to international standards” commenced work in Kiev on 11 November 2013. The general objective of the Project is “to contribute to the development of a solid and consistent public finance management through the establishment of a comprehensive and transparent regulatory framework for public procurement, an efficient public procurement institutional infrastructure, the accountability and integrity of public authorities in regard to public procurement and the development of the Ukrainian State aid system”.

In regard to State aid support activities, the Project is focusing on expert advice on policies, legislation and institutional structures and operations together with a range of training activities and awareness raising events. As the key organisation in Ukraine responsible for the development of a State aid regulatory system, the Anti-Monopoly Committee of Ukraine (AMCU) is a key beneficiary of the Project.

The Ukrainian Law “On State Aids to the Undertakings” of 2014\(^1\) established the AMCU as the national regulator (“Authorised Body”) for controlling and monitoring State aids in Ukraine. In that context, this Report examines the national and international reporting requirements of Ukraine in regard to the national State aid system that, under the Law, becomes fully operational from 2 August 2017.

The EU-Ukraine Association Agreement\(^2\) requires Ukraine to ensure the establishment of a fully operational system for State Aid control. In particular, Article 263(1) and Article 267(2) of the Agreement set out specific obligations for the transparency of State aids granted and for the establishment of a comprehensive inventory of existing State aid schemes, within five years from the entry into force of the Agreement. Transparency must be ensured by the preparation of annual State aid reports and their lodgment with the other party or by ensuring the availability of the required information on a publicly accessible website. The Agreement also obliges Ukraine to align existing aid schemes with EU rules within a period of no more than seven years from the entry into force of the Agreement.

International trade law also provides for the regulation of subsidies in the General Agreement on Tariffs and Trade (GATT) and World Trade Organisation (WTO) Agreement on Subsidies and Countervailing Measures (SCMA). Article XVI of the GATT introduced a prohibition of export subsidies for products other than primary products. A GATT and now a WTO contracting party may apply an extra customs tariff at its border to offset foreign subsidies. Multilateral agreements were adopted in the framework of the Uruguay Round in 1994, containing the current regulation of subsidies in the WTO, i.e. Agreement on Subsidies and Countervailing Measures (ASCM) and the Agreement on Agriculture (AoA). As a member of the WTO, Ukraine is required to notify subsidy schemes which operate to increase exports or reduce the imports of goods. The main provisions concerning reporting are laid down in the GATT and the SCMA.

In addition, on 1 February 2011, Ukraine became a Contracting Party to the Energy Community Treaty (ECT). Accordingly, Articles 18 and 19 of the ECT, which require EU compatible rules as regards State Aid in the energy sector, became applicable in Ukraine together with the application of a range of EU

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\(^1\) Law of Ukraine “On State Aid to Undertakings” № 1555-VII (1 July 2014).

\(^2\) Association Agreement between the European Union and its Member States, of the one part, and Ukraine, of the other part, Title IV, Chapter II.
sectoral energy legislation. While the ECT does not provide for specific reporting requirements, it has a clear continuing interest in being informed about State aid in the energy sector in Ukraine.

The format for the Ukrainian State Aid Annual Report proposed here is intended to be comprehensive and multi-purpose. In particular, it is suggested that it address the needs of national and international audiences and ensure consistency with the latest WTO Reports from Ukraine. The proposed format is the following:

**Proposed State Aid Report Structure**

1. Introduction to the Report
2. Economic development context
3. The Legal and International context
4. The establishment and operation of the State Aid system
5. State Aid in Ukraine during the reporting period
6. Conclusions

Data Annexes (proposed list of tables that may be included):
- Selected Economic Indicators for reporting year
- Decisions of the AMCU on existing and new aid schemes and individual aids
- State aid in Ukraine granted in year... (excluding agriculture, fisheries).
- Total State Aid in Ukraine compared to the EU average.
- Classification of State Aid Instruments in Ukraine applied in year...
- Distribution of Horizontal State Aids in Ukraine
- Horizontal State aid in Ukraine compared to EU averages.
- Distribution of Vertical State Aids in Ukraine
- Ad-hoc State aids in Ukraine

The Report notes that Annual Reporting on State Aid in Ukraine is a new activity to be undertaken by the AMCU as State aid monitor under the Law on State Aid to Undertakings and that, in principle, this should commence with a first Annual Report in 2018. Moreover, the Annual Report has both a national and international dimension.

While a State Aid Annual Report can be as simple as summary data tables, the proposal here is for a comprehensive and meaningful Annual Report that will serve the information needs of both Ukrainian and international readers and contribute to the potential national benefits of the State aid system in Ukraine.

Finally, although specific State aid reporting requirements are not set out in the Energy Community Treaty (under which Ukraine has specific sectoral State aid obligations), it is desirable that the Energy Community Secretariat is foreseen as a recipient of the Annual Report together with the European Commission under the terms of the EU-Ukraine Association Agreement.
1. INTRODUCTION

The EU funded Project “Support for the Development of the Public Procurement and State Aid Systems of Ukraine to international standards” commenced work in Kiev on 11 November 2013. The general objective of the Project is “to contribute to the development of a solid and consistent public finance management through the establishment of a comprehensive and transparent regulatory framework for public procurement, an efficient public procurement institutional infrastructure, the accountability and integrity of public authorities in regard to public procurement and the development of the Ukrainian State aid system”.

In regard to State aid support activities, the Project is focusing on expert advice on policies, legislation and institutional structures and operations together with a range of training activities and awareness raising events. As the key organisation in Ukraine responsible for the development of a State aid regulatory system, the Anti-Monopoly Committee of Ukraine (AMCU) is a key beneficiary of the Project.

The Ukrainian Law “On State Aids to the Undertakings” of 2014\(^3\) established the AMCU as the national regulator (”Authorised Body”) for controlling and monitoring State aids in Ukraine. While the adoption of the Law represents an important milestone for the development of Ukraine’s State aid system, extensive secondary legislation will also be required together with a significant institutional effort to make the new State aid system fully operational from 2 August 2017.

In regard to reporting, the Law provides for this as an essential output of the State aid monitoring process set out in Article 16 of the Law.

**Article 16: State Aid Register and Reporting**

1. The State Aid Register shall be established and kept by the Authorised Body upon the results of State aid monitoring based on information on the existing State aid to be submitted by the providers of such aid.

2. The State Aid Register shall be updated by the Authorised Body, in particular, with details on new State aid which became effective over the reporting year, including such aid whose providers are exempted from an obligation to notify thereof in accordance with Article 7, Part One, of this Law.

3. State aid providers shall provide Authorised Body with the information on the existing State aid, its purpose, forms, sources, beneficiaries and their respective shares in the total State aid granted during the preceding financial year as a part of the respective State aid program or information that no State aid was granted during the reporting year by the 1\(^{st}\) day of April of the year following the reporting one in such manner as prescribed by the Authorised Body.

4. The form and requirements to information to be reported on the existing State aid shall be defined by the Authorised Body.

5. State aid beneficiaries shall disclose full and true information on the existing State aid to the respective State aid providers.

6. If a State aid provider fails to submit information on the existing State aid to the Authorised Body within the time limit defined by the Law, the Authorised Body shall send a written request to submit such

\(^{3}\) Law of Ukraine “On State Aid to Undertakings” № 1555-VII (1 July 2014).
7. The Authorised Body shall make an annual report of State aid granted in Ukraine in the preceding financial year by the 1st day of September of the year following the reporting one and shall submit such report to the Cabinet of Ministers of Ukraine. Such report shall be published in Uriadovy Kuryer Newsletter and shall be placed on the Government’s website.

8. The State Aid Register shall be open with free access to it by all users.

Thus, a national annual report is envisaged. Allowing for the full entry into force of the Law in August 2017, the first such report should be presented in September 2018 and this is in line with the requirements of Article 263(1) of the EU-Ukraine Association Agreement which provides for reporting within five years of the entry into force of the Agreement in the following terms:

“Each Party shall ensure transparency in the area of State aid. To this end, each Party shall notify annually to the other Party the total amount, types and the sectoral distribution of State aid which may affect trade between the Parties. Respective notifications should contain information concerning the objective, form, the amount or budget, the granting authority and where possible the recipient of the aid. For the purposes of this Article, any aid below the threshold of EUR 200.000 per undertaking over a period of three years does not need to be notified. Such notification is deemed to have been provided if it is sent to the other Party, or if the relevant information is made available on a publicly accessible internet website, by 31 December of the subsequent calendar year”

Ukraine is also one of the countries that have ratified the Energy Community Treaty (ECT), and therefore it is obliged to comply with all provisions provided for in the ECT\(^4\) including those concerning the regulation of State aid in the energy sector.

International trade law also regulates subsidies in the General Agreement on Tariffs and Trade (GATT) and the WTO Agreement on Subsidies and Countervailing Measures (SCMA). The WTO deals with the regulation of trade between participating countries by providing a framework for negotiating trade agreements and a dispute resolution process aimed at enforcing participants’ adherence to WTO agreements. Article XVI of the GATT introduced a prohibition of export subsidies for products other than primary products. A GATT and now a WTO member may apply an extra customs tariff at its border to offset foreign subsidies. In 1979 the Tokyo Round resulted in the adoption of the Subsidies Code, whose modification was discussed and approved within the framework of the Uruguay Round. Multilateral agreements were adopted in the framework of the Uruguay Round in 1994, containing the current regulation of subsidies in the WTO, in particular the SCMA and the Agreement on Agriculture (AoA).

The regulation of subsidies in international trade is mainly contained in Agreement on Subsidies and Countervailing measures. The SCMA deals with subsidies granted to non-primary or industrial products. Accordingly, the SCMA covers subsidies granted to those primary products excluded from the Agreement on Agriculture. Likewise, subsidies granted to services are subject to the provisions of the General Agreement on Trade in Services (GATS). The WTO members are required to publish their trade regulations, to maintain institutions allowing for the review of administrative decisions affecting trade, to respond to requests for information by other members, and to notify changes in trade policies to the WTO. These internal transparency requirements are supplemented and facilitated by periodic country-specific reports (trade policy reviews) through the Trade Policy Review Mechanism and by specific notification requirements in the SCMA.

Article 25 of the SCMA provides that Members shall notify any subsidy covered by Articles 1 and 2 of the Agreement granted or maintained within their territories not later than 30 June of each year. However, WTO practice now requires a full notification every two years to the SCMA Committee of the WTO. The

\(^4\) Accession Protocol of Ukraine to the Energy Community, 24.09.2010
content of notifications is required to be sufficiently specific to enable other Members to evaluate the trade effects and to understand the operation of notified subsidy programmes and to contain the following information.

**Information required in a subsidy notification under the SCMA**

(i) form of a subsidy (i.e. grant, loan, tax concession, etc.);
(ii) subsidy per unit or, in cases where this is not possible, the total amount or the annual amount budgeted for that subsidy (indicating, if possible, the average subsidy per unit in the previous year);
(iii) policy objective and/or purpose of a subsidy;
(iv) duration of a subsidy and/or any other time-limits attached to it;
(v) statistical data permitting an assessment of the trade effects of a subsidy.

Ukraine has been a member of the WTO since 16 May 2008. Amongst the commitments undertaken by Ukraine was its obligation to have its customs duties capped at certain rates that would be reduced over a period of up to 2013. Ukraine has agreed not to apply any “other duties and charges” — beyond its ordinary customs duties. In agriculture, Ukraine has agreed not to subsidize exports. Ukraine has made specific commitments in all 11 “core” service sectors — including business services, communication services, construction and related engineering services, distribution, education and environmental services, financial services (insurance and banking), health and social services, tourism and travel, recreational, cultural and sporting services, and transport services — as well as in other areas. As a member of WTO, Ukraine is obliged to regularly notify subsidy schemes under the SCMA.

As WTO SCMA subsidy notifications are required in full every two years, this amounts to a reporting requirement which should be consistent with key content in the State aid Annual Report under Article 16 of the Law on State Aid to Undertakings.

In the following Chapters, the role of State aid reporting as a monitoring instrument in the EU State aid system is reviewed prior to the presentation of proposals regarding the format and content of the Ukrainian Annual Report on State Aid (for national and international purposes) and consideration of certain issues that may need to be addressed in regard to State aid annual reporting.
2. OVERVIEW OF STATE AID CONTROL AND MONITORING IN THE EU STATE AID SYSTEM

The main provisions of State aid control in the EU

The EU State aid regulatory system has operated for nearly 70 years and aims to ensure that government interventions do not distort competition and trade. The provisions of the original EEC Treaty have remained substantially unchanged over the years and the present Treaty provisions are to be found in Articles 106 to 109 of the "Treaty on the Functioning of the European Union" (TFEU) which came into force in December 2009.

Article 107 of the TFEU sets out a general prohibition on State aid; while recognising that, in some circumstances, government interventions are necessary for a well-functioning and equitable economy. Thus, with the agreement of the European Commission, certain types of State aid are allowed for certain purposes and within the limits set down by a series of legal acts regarding exemptions from the general prohibition on the granting of State aid.

Normally, where a EU Member State seeks to have a State aid measure exempted, it must first notify the measure to the European Commission and await a decision on (a) whether the measure is a State aid and (b) whether or not it can be exempted; either with or without conditions. This requirement is laid down in Article 108 of TFEU. According to Article 108 of the TFEU any State aid measure must be notified beforehand to the European Commission, giving it the possibility to assess the measure under EU State aid rules. Member States are under an obligation not to implement the aid measure before the Commission has taken its position and either declared the measure to be compatible with the internal market under Article 107 of the TFEU, has not raised any objections or considers that the measure does not constitute aid. Article 108 of TFEU requires Member States to notify the introduction of a new aid or the modification of an existing aid. In both cases the State aid is considered as new aid. This means that any such aid must not be implemented or granted before the Commission has approved it.

Article 108 (3) TFEU specifically prohibits the granting of any State aid before the Commission has been in position to assess its compatibility with the internal market. This provision is called ‘stand-still’ provision. Violation of this rule makes the State aid unlawful or illegal. In appropriate cases, the Commission may order the recovery of illegal aid with interest e.g. when it has not been notified and is later considered incompatible with the EU State aid rules.

The notification process of new State aid follows the detailed procedure of the Implementing Regulation. Special forms have been developed to facilitate the notification of different types of aid and notifications are now filed electronically with the Commission by means of the so called State Aid Notification Interactive System (SANI system). Member States complete the notification online on the SANI forms and upload supporting documentation, and their Permanent Representative authenticates

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5 An important exception to this is the General Block Exemption Regulation of 2014 which allows certain types and levels of aid to be implemented without prior notification but subject to very specific conditions, including a requirement for such measures to be regularly reported to the Commission.

the submission of the final notification to the Commission. Once the notification is complete and the SANI notification has been authenticated, the Commission assesses the compatibility of the relevant State aid measure with the internal market.

**Monitoring of existing State aid**

Existing State aid refers to State aid which existed before regulation, which was approved or to measures which, while previously not State aid, became State aid due to market changes or other factors.

Under Article 108 (1) of the TFEU, the European Commission must ensure that the application of any aid measure does not become incompatible with the internal market. Article 108(1) provides that:

“The Commission shall, in cooperation with Member States, keep under constant review all systems of aid existing in those States. It shall propose to the latter any appropriate measures required by the progressive development or by the functioning of the internal market”.

This relates first of all to the aid measures that were implemented in accordance with the Commission decisions (compliance with those decisions). Rules on monitoring are also important for the supervision of State aid implemented without notification (aid which is exempted from notification requirement). Consequently, the Commission reviews existing State aid measures on an on-going basis, and it has the right to obtain all pertinent information from Member States. Member States are also specifically required to submit annual reports on existing aid schemes to the Commission. In that regard, Article 26 of the Council Regulation (EU) 2015/1589 of 13 July 2015 Council Regulation (EU) 2015/1589 of 13 July 2015 is of importance.

**Article 26 of State Aid Procedural regulation 2015**

**Annual reports**

1. **Member States shall submit to the Commission annual reports on all existing aid schemes with regard to which no specific reporting obligations have been imposed in a conditional decision pursuant to Article 9(4).**

2. **Where, despite a reminder, the Member State concerned fails to submit an annual report, the Commission may proceed in accordance with Article 22 with regard to the aid scheme concerned.**

A standardised reporting format for existing State aid is laid down in Annex II of Commission Regulation (EU) 2015/2282 of 27 November 2015\(^7\) (this is presented as Annex IV to this Report).

The annual reports have to be filed electronically with the Commission by means of the so called State Aid Reporting Interactive System (SARI system). The Commission provides Member States, by 1 March each year, with a pre-formatted online and access based platform, containing detailed information on all existing aid schemes and individual aid. Member States must check and complete that information by 30 June of the same year. The bulk of the information in the platform is pre-completed by the Commission on the basis of data provided at the time of approval of the aid. Member States are required to check and, where necessary, modify the details for each scheme or individual aid, and to add the annual expenditure for the latest year.

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In order to compile the data on existing State aid the Commission uses the State Aid Scoreboard, as a benchmarking instrument. It is a transparent and publicly accessible source of information on the overall State aid situation in Member States and on the Commission’s controlling activities. The Scoreboard reports every year in an aggregated manner on the State aid in all EU Member States in the previous year and highlights certain future trends, providing for a full synopsis of State aid expenditure, as well as for a quantitative and qualitative analysis of aid categories and aid instruments used.
3. UKRAINE’S INTERNATIONAL AND NATIONAL REPORTING REQUIREMENTS CONCERNING STATE AID

Introduction

With the opening up of trade and the international position of a country (including EU integration and WTO membership) a key consequence is that international rules concerning State support to economic activity (and the interests of new trading partners in the impact of State aids and subsidies on trade and competition) need to be taken fully into account. Since the 1990s, State Aid regulatory systems are required by the EU in its pre-accession agreements and trade related agreements with a range of countries including the new EU Member States (Europe Agreements), the countries of the former Soviet Union (Partnership and Cooperation Agreements) and the Balkans (Stabilisation and Association Agreements). These systems are also required under the Energy Community Treaty and, in turn, they assist in regard to compliance with WTO rules in the context of several agreements, notably the SCMA and the Agreement on Trade-Related Investment Measures (TRIMS).

Based on these trends and developments, it is clear that a functioning State aid supervision system has been progressively required by the EU in its third country trade agreements – and with close supervision of implementation where those agreements are linked to the possibility of future EU membership. While the nature, intensity and phasing of State aid supervision systems in so-called “third countries” has varied considerably in response to national situations, engagement in certain multi-lateral agreements and stages in EU Integration, the structure and content of the systems now being required essentially consist of the following elements.

State Aid Supervision System requirements on non-EU countries

1. A State Aid Inventory
2. Legislation to create the basis for monitoring changes in the inventory and reporting it annually to the EU (and the WTO).
3. A functioning monitoring mechanism co-ordinated at national level
4. Annual State aid international (possibly also national) reporting
5. Eventual national regulatory controls (in the legislation) to provide for
   • approval, non-approval or conditional approval of new State aids or substantial changes to existing aids
   • a process of review and alignment of existing State aid
   • a state aid mapping process to match maximum investment and job creation State aid to real and relative economic disadvantage
   • a right of recovery of illegal State aid.

In the context of these systems requiring both monitoring and control elements, the notion of monitoring means the collection of data on State aid and State aid reporting. The purpose of monitoring of State aid is to keep under constant review all systems of aid existing in the country so as to ensure their compliance with the relevant requirements in the field of State aid.

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In the EU system, Member States are also obliged to provide the Commission with annual information on existing State aid, its purpose, forms, sources, beneficiaries and other relevant information concerning the respective State aid scheme or individual aid. This is necessary in order to ensure the compliance of existing State aid schemes with the relevant requirements and decisions of the Commission and this is mainly achieved by means of annual reports.

In regard to the implementation of State aid monitoring requirements that are laid down in the present generation of Association Agreements with Ukraine, Georgia and Moldova, an important instrument that may be used together with annual reports for monitoring purposes is cooperation between Commission and national independent supervisory bodies that are responsible for State aid control in the associated countries. In the EU for monitoring purposes the Commission also may use on-site monitoring visits to the beneficiary if there are serious doubts about compliance of existing State aid schemes.

However, the basic requirement is that the Parties to the Association Agreements are required to ensure transparency in the area of State aid and to notify annually to the other Party the total amount, types and the sectoral distribution of State aid which may affect trade between the Parties. These notifications should contain information concerning the objective, form, the amount or budget, the granting authority and where possible the recipient of the aid.

The State aid provisions of the EU-Ukraine Association Agreement provisionally entered into force on 1 January 2016.

Structure and content of the Annual Report

As already noted, Article 16(7) of the Law on State Aid to Undertakings requires an Annual Report on State aid to be compiled by the AMCU and submitted to the Cabinet of Ministers of Ukraine. This Report is then to be placed on the Government’s website. This Report should also be able to fulfil the requirement of transparency/reporting in Article 263(1) of the Association Agreement with or without formal submission to the European Union.

As already seen, the following specific information on State aid is to be reported under the terms of the Association Agreement:

<table>
<thead>
<tr>
<th>Information to be included in the Annual Report</th>
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<tr>
<td>1. Total amount of State aid</td>
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<td>2. Types and the sectoral distribution of State aid</td>
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<tr>
<td>3. Respective notifications should contain information concerning the objective, form, the amount or budget, the granting authority and where possible the recipient of the aid</td>
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This reporting requirement does not apply to so-called de minimis aid - any aid below the threshold of €200,000 per undertaking over a period of three years which does not need to be notified. At the same time, the inclusion of de minimis aid is not precluded and may usefully give a fuller picture of State aid in Ukraine where the threshold is high in local economy terms and as de minimis aid.

The annual report to be prepared by the AMCU should contain information on the total amount of national State aid in Ukraine, types and sectoral distribution, beneficiaries etc. In particular, it should obviously be based on the detailed information on State aid measures included in the Register on State
Aid. At the same time, to fully present the data and its context in Ukraine, a more explanatory approach is recommended in addition to the presentation of raw data. Experience elsewhere indicates that this reduces the risk of follow-up enquiries from the EU and its Member States. It is also a preferred approach in the context of the desirable national oversight of State aid in Ukraine which is a further and important function of the Annual Report under the Law on State Aid to Undertakings.

The suggested overall structure is the following.

**Proposed structure of the Annual Report:**

<table>
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<td>1. Economic development context</td>
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Annexes (proposed list of tables that may be included):
- Selected Economic Indicators for reporting year
- Decisions of the AMCU on existing and new aid schemes and individual aids
- State aid in Ukraine granted in year… (excluding agriculture, fisheries).
- Total State Aid in Ukraine compared to the EU average.
- Classification of State aid Instruments in Ukraine applied in year...
- Distribution of Horizontal State Aids in Ukraine
- Horizontal State aid in Ukraine compared to EU averages.
- Distribution of Vertical State Aids in Ukraine
- Ad-hoc State aids in Ukraine

**Content of the Introduction to the Annual Report**

The Introduction to the Annual Report should present background information in order to clarify that the purpose of the Report. The purpose the Annual Report is to inform the Government of the overall State aid situation in the country and to meet the international obligations of Ukraine in respect of State aids and subsidies, including transparency requirements and international reporting arising from the EU-Ukraine Association Agreement, the ECT and the regular reporting on industrial subsidies to the WTO (primarily in the setting of the SCMA). The State Aid Annual Report should provide a picture of State aids in Ukraine, in terms of the main State aid objectives pursued and the main State aid instruments used in the reporting period. The introduction to the Report should, therefore, include in summary, the main figures and the main aspects of the State aid control system in Ukraine during the reporting year.

**Content of the Chapter on the Economic Development of Ukraine**

The purpose of this chapter is to provide an overview of the economic situation in Ukraine and the progress achieved during the reporting period. It should include the main economic indicators for the period concerned, such as:

- Real GDP growth
This chapter should include a brief description of government policy measures that were applied in Ukraine during the reporting period in order to instigate economic development. This can cover various measures that were used in Ukraine to increase economic growth e.g. measures used to improve the business environment, the enhancement of education and training of human resources (through the application of standards that promote learning, innovation and creativity in business) and the imperative of increasing the opportunities of the Ukrainian economy, in order to adapt to the logic of internationalisation and integration into global markets by means of the diversification of existing products and services and the production of output with higher added value. This can also include description of actions undertaken by the Government to better coordinate economic policies across various State institutions so as to make concrete measures efficient and better prioritised. Moreover, this Chapter may include a description of new emerging economic development strategies and plans that will be focused on achieving balanced, harmonious and sustainable development, economic growth and additional employment.

Another important part of the Chapter on economic development can include an illustration of particular sectoral development challenges that were being addressed in Ukraine during the reporting period. This serves to provide an overview of key directions of government development policy in various sectors of the Ukrainian economy. It is important to give an overview of those measures because they may have a range of impacts on new government initiatives, including possible new or amended State aid schemes or ad-hoc interventions.

Implementation of regional policy is another issue that should be reflected in this Chapter of the Annual Report. Accordingly, the Chapter should describe the regional policy measures that the Government used during the reporting period. These are measures that are focused to reduce regional disparities between different parts of the country. This part of the Chapter on economic development should include a brief description of the main aspects of national plans or programmes of regional development.

This Chapter should also provide basic information about foreign direct investment policy and about the activity in special economic zones (if there are any). This would include a description of:

- measures applied for the promotion of increased foreign direct investment;
- relevant programmes used for improving the business climate, by means of various initiatives, including concession schemes;
- the development of public/private partnerships;
- stimulation of the establishment of industrial parks and other zones

SME policy should also be set out here. The role of SMEs is very important to Ukraine. Given the overall level of economic development of the country, the challenges facing the SME sector are substantial (including management capability, employee training levels, business environment issues, ability to grow towards export potential, and appropriate access to finance, innovation and technology). At the same time, the potential economic contribution of Ukrainian SMEs remains to be more fully enhanced and SME’s to be provided with supporting services and access to information and communication.
technologies. The Chapter on economic development should illustrate the challenges faced by SME’s in Ukraine and describe Government policy and specific initiatives being undertaken to assist SMEs.

Other areas of possible relevance to this Chapter of the Report include employment policy, taxation policy and the progress of the privatisation process, especially in strategic sectors, such as electrical energy, oil and gas, and transport.

Accordingly, the Economic Development Chapter will summarise key aspects of and initiatives under economic development policy. While this serves to provide an overall policy logic for the State aid measures set out later in the Report, it may also serve to illustrate alternative (i.e. non-State aid) instruments in use in Ukraine in the economic development context.

**Content of Chapter on the Legal and International context**

While the primary legal basis of the Report is Article 16 of the Law on State Aid to Undertakings, Ukraine’s international obligations to operate a transparent national regulatory system regarding State aid and subsidies (including international reporting requirements) derive from the EU-Ukraine Association Agreement, the ECT and the WTO Subsidies and Countervailing Measures Agreement. These requirements should be explained in the Report both for national and international users.

**Content of Chapter on the establishment and operations of the State aid regulatory system in Ukraine**

As there are both national and international imperatives on Ukraine to fully operate the national State aid system, this Chapter should explain the progress of the system including its general operations (successes and problems) and statistics on cases considered, interaction with relevant public authorities and improvements within the last year.

Here it can be recalled that, apart from international obligations, the following national benefits can be expected to derive from the system:

<table>
<thead>
<tr>
<th><strong>Expected national benefits of the State aid system for Ukraine</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1) achieving <em>higher standards in public finance management</em>, including the avoidance of duplicating or wasteful public expenditure.</td>
</tr>
<tr>
<td>2) Contributing to the <em>anti-corruption</em> efforts of Ukraine by ending secret subsidies or subsidies to specific firms that have no justification.</td>
</tr>
<tr>
<td>3) Increasing the level of <em>competition</em> in the economy by reducing the cases where an artificial competitive advantage is unnecessarily given to some firms.</td>
</tr>
<tr>
<td>4) helping to ensure that support measures to the business sector (in whatever form) are well <em>justified and likely to succeed</em> in achieving tangible economic results.</td>
</tr>
<tr>
<td>5) contributing to the <em>functioning market economy</em> in Ukraine by rationalising future industrial modernisation, economic development and foreign direct investment policies in line with best international practice.</td>
</tr>
</tbody>
</table>

This Chapter provides an opportunity for the AMCU to illustrate any of these benefits from its practice. Any envisaged or need legislative changes to facilitate the better operations of the system can also be explained here.
In terms of the working of the system, this Chapter can usefully cover such issues as:

- Description of the analysis and evaluation of State aid schemes existing in Ukraine as laid down in Chapter 9 paragraph 2 of the Law on State Aid to Undertakings (these are programmes to support undertakings through State resources or local resources that existed as of the effective date of the Law). Chapter 9 paragraph 3 requires that such existing aid programmes which are found to be incompatible with competition pursuant to an AMCU decision must be brought into compliance with the Law within the term prescribed by the AMCU but by August 2020 at the latest. The activity carried out by the AMCU concerning the assessment of such schemes should be appropriately reflected in the Annual Report and outline the objectives of the measures reviewed and other key information.

- progress achieved in regard to the compilation of State aid data and the establishment of the comprehensive inventory of existing State aid schemes,
- application of the procedures for notifying and final decision making in regard to new aid plans.
- participation in reviewing and commenting on draft normative acts which could have State aid implications, through the involvement of State resources, such as new fiscal measures, implementing legislation concerning the administration of public properties, similar drafts regarding public utilities, normative acts in the field of tourism, health, employment, etc. (advocacy role).

**Content of Chapter on State aid provided in Ukraine during the reporting period**

This Chapter of the Annual Report includes information about amounts, categories, types and sectoral distribution of State aid granted in Ukraine during the reporting period. In line with EU practice and Article 6 of the Law on State Aid to Undertakings, State aid may be provided for various horizontal and sectoral objectives and State aid is generally classified according to the objectives of aid — hence, regional aid, other categories of horizontal aid, also aid granted to support individual sectors. Horizontal State aid is State aid granted for the purpose of eliminating or reducing difficulties of a certain nature that may arise in any economic sector. It is represented by horizontal measures applied in pursuit of a specific goal. Sectoral State aid refers to aid to assist certain specific sectors or industries which may be covered by particular sectoral rules.

**Horizontal State aid categories**

- small and medium-sized enterprises (SME) State aid;
- aid for Research and Development and Innovation (RDI);
- environmental State aid;
- training aid;
- employment State aid;
- regional aid;
- risk capital State aid;
- rescue and restructuring State aid;
- aid for other horizontal objectives.

The draft format of the Annual Report in regard to the total amounts of State aid is set out in Annex I to this Report.

This Chapter should also include data on the classification of State aid instruments (see Annex II to this Report) as well as data on ad- hoc measures granted in Ukraine.
This part of the Annual Report should also include aggregated data and indicators such as:

- Nominal GDP
- State aid share in GDP
- Government expenditure
- State aid share in government expenditure
- Number of employees
- State aid per employee

**Annual Report Conclusions**

This Chapter of the Annual Report should set out the main trends and findings of the Report.

**Submission of the Annual Report**

It is consistent with the spirit of Article 16(7) of the Law on State Aid to Undertakings that the Cabinet of Ministers should approve or note the Annual State Aid Report of the AMCU. Its publication on the Government’s website is also a requirement of the Law.

For the avoidance of doubt, it is also recommended that the Report is provided directly (probably by the Ministry of Foreign affairs) to the European Union and the Secretariat of the Energy Community Treaty. At an absolute minimum, these organisations should be officially informed that the Report has been posted to the Government website in accordance with Article 16.

The question of the need to translate the Annual Report (e.g. into English for international readers) is not clear. However, it is desirable that this is done in the spirit of transparency required e.g. by the association Agreement.

**Reporting on subsidies to the WTO**

The main reporting requirements concerning subsidies in the WTO context are set out in Article XVI(1) of the GATT and Article 25 of the SCMA. The GATT provision is essentially a notification requirement as follows:

“If any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory, it shall notify the CONTRACTING PARTIES in writing of the extent and nature of the subsidization, of the estimated effect of the subsidization on the quantity of the affected product or products imported into or exported from its territory and of the circumstances making the subsidization necessary. In any case in which it is determined that serious prejudice to the interests of any other contracting party is caused or threatened by any such subsidization, the contracting party granting the subsidy shall, upon request, discuss with the other contracting party or parties concerned, or with the CONTRACTING PARTIES, the possibility of limiting the subsidization.”

Article 25 of the SCMA is a more general reporting requirement focussed on the submission of a full notification of relevant subsidies every two years.
Requirements applied to the Annual Report on subsidies to WTO:

- The content of notifications should be sufficiently specific to enable other Members to evaluate the trade effects and to understand the operation of notified subsidy programmes. In this connection, and without prejudice to the contents and form of the questionnaire on subsidies, Members shall ensure that their notifications contain the following information:
  (i) form of a subsidy (i.e. grant, loan, tax concession, etc.);
  (ii) subsidy per unit or, in cases where this is not possible, the total amount or the annual amount budgeted for that subsidy (indicating, if possible, the average subsidy per unit in the previous year);
  (iii) policy objective and/or purpose of a subsidy;
  (iv) duration of a subsidy and/or any other time-limits attached to it;
  (v) statistical data permitting an assessment of the trade effects of a subsidy.

- If subsidies are granted to specific products or sectors, the notifications should be organized by product or sector.

- Members which consider that there are no measures in their territories requiring notification under paragraph 1 of Article XVI of GATT 1994 and Article 25 of ASCM shall so inform the Secretariat in writing.

- Any Member may, at any time, make a written request for information on the nature and extent of any subsidy granted or maintained by another Member.

- Members so requested shall provide such information as quickly as possible and in a comprehensive manner, and shall be ready, upon request, to provide additional information to the requesting Member.

Ukraine’s latest SCMA Notification to the WTO on Subsidies (20 July 2015) covering the two-year period 2013-2014 is to be found in Annex III to this Report.

In line with the provisions of Article 25 of the SCMA, any WTO Member which considers that any measure of another Member having the effects of a subsidy has not been notified in accordance with the provisions of paragraph 1 of Article XVI of GATT 1994 and Article 25 of the SCMA may bring the matter to the attention of such other Member.

Thus, if the alleged subsidy is not thereafter notified promptly, such Member may itself bring the alleged subsidy in question to the notice of the Committee. Members are also obliged to report without delay to the Committee all preliminary or final actions taken with respect to countervailing duties. In addition, Members are required to submit, on a semi-annual basis, reports on any countervailing duty actions taken within the preceding six months. The semi-annual reports have to be submitted in an agreed standard form.

The SCMA also includes the possibility of notifying subsidy programmes provided as regional aid, environmental aid and in the field of research and development.

In Ukraine, the SCMA notifications/Reports are prepared by the Ministry of Economic Development and Trade. In that regard, it is desirable that the AMCU State Aid Report refers to SCMA notifications and that arrangements are developed between the AMCU and the Ministry (possibly via a Memorandum of Understanding) to ensure the overall compatibility of data. In the short-term, the SCMA notifications provide the AMCU as regulator with a list of likely existing State aid measures at the start of its operations in August 2017 of applying the Law on State Aid to Undertakings.

The latest Ukrainian Report under the SCMA is presented in full in Annex III to this Report and summarised in the Table below.
<table>
<thead>
<tr>
<th>Subsidy programmes</th>
<th>Amounts reported (million UAH)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
</tr>
<tr>
<td><strong>HORIZONTAL PROGRAMMES</strong></td>
<td></td>
</tr>
<tr>
<td>• Special Economic Zones and Priority Territories</td>
<td>221.5</td>
</tr>
<tr>
<td>• Technological Parks</td>
<td>0</td>
</tr>
<tr>
<td><strong>SECTORAL PROGRAMMES</strong></td>
<td></td>
</tr>
<tr>
<td>• Shipbuilding</td>
<td>117</td>
</tr>
<tr>
<td>• Aircraft</td>
<td>737.7</td>
</tr>
<tr>
<td>• Machinery for agriculture</td>
<td>52.4</td>
</tr>
<tr>
<td>• Space industry</td>
<td>87.1</td>
</tr>
<tr>
<td>• Coal Mining</td>
<td>14,823</td>
</tr>
<tr>
<td>• Book-Publishing</td>
<td>889.5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>16,928.2</td>
</tr>
</tbody>
</table>

9 Ukraine WTO Subsidies under the SCMA in the period 2013 and 2014 - WTO document: G/SCM/N/284/UKR.
Annual Reporting on State Aid in Ukraine is a new activity to be undertaken by the AMCU as State aid monitor under the Law on State Aid to Undertakings. In principle, this should commence with a first Annual Report in 2018.

The Annual Report has both a national and international dimension. Specific reporting requirements on State aid arise under the EU-Ukraine Association Agreement and on subsidies under the WTO Subsidies and Countervailing Measures Agreement. While it is desirable that the Annual Report under the Law on State Aid to Undertakings is consistent with the WTO SCMA Reports of the Ministry of Economic Development and Trade, the two Reports cannot be simplified into one because the WTO Report is essentially narrower in scope.

While a State Aid Annual Report can be as simple as summary data tables, the proposal here is for a comprehensive and meaningful Annual Report that will serve the information needs of both Ukrainian and international readers and contribute to the potential national benefits of the State aid system in Ukraine.

Although specific State aid reporting requirements are not set out in the Energy Community Treaty (under which Ukraine has specific sectoral State aid obligations), it is desirable that the Energy Community Secretariat is foreseen as a recipient of the Annual Report together with the European Commission under the terms of the EU-Ukraine Association Agreement.
Proposed form of Annual Report on State aid according to Article 263 of EU - Ukraine Association Agreement

State aid in Ukraine in ......(year)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>A1</th>
<th>A2</th>
<th>B</th>
<th>C1</th>
<th>C2</th>
<th>D</th>
<th>Total amount (Euros million)</th>
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<tbody>
<tr>
<td>Industry and services</td>
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<tr>
<td>1. Horizontal aid</td>
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<tr>
<td>1.1. Research and development and innovation</td>
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<td>1.2. Environmental protection and energy</td>
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<td>1.3. Small and medium sized enterprises</td>
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<td>1.4. Training</td>
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<td>1.5. Employment of certain categories of workers and for employment creation</td>
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<td>1.6. Rescue and restructuring of undertakings</td>
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<td>1.7. Privatisation</td>
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<td>1.8. Risk finance</td>
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<td>1.9. Other (specify)</td>
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<td>2. Sectoral aid</td>
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<td>2.1. Steel</td>
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<td>2.2. Coal</td>
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<td>2.3. Transport</td>
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<td>2.4. Audiovisual production</td>
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<td>2.5. Broadband</td>
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<td>2.6. Broadcasting</td>
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<td>2.7. Electricity</td>
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<td>2.8. Postal services</td>
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<td>2.9. Financial services</td>
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<td>2.10. Tourism</td>
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<td>2.11 Other (specify)</td>
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<td>3. Regional aid</td>
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</tbody>
</table>

10 See Annex II
Explanatory Note on methods of granting State aid

For the purpose of compilation of an Annual Report on State aid according to Article 263 of EU-Ukraine Association Agreement it is necessary to indicate to which group specific measure of existing State aid belongs. Essentially, here we speak about the methods of granting State aid, although describing them in detail. Each of them is assigned a specific letter – A, B, C, and D. They may be also grouped depending on whether the aid is granted directly from the budget (e.g., A1 – direct grants and subsidies), or is granted via certain system (e.g., A2 – tax exemptions granted via the taxation system).

The groups are the following:

**A. Grants and tax exemptions**, including:
- Grants
- Interest subsidies received directly by the recipient
- Tax credits and other tax measures, where the benefit is not dependent on having a tax liability (i.e. if the tax credit exceeds the tax due, the excess amount is repaid)
- Tax allowances, exemptions, and rate relieves where the benefit is dependent on having a tax liability
- Reductions in social security contributions
- Grant equivalents e.g. sale or rental of public land or property at prices below market value.

**B. Equity participation**

**C. Soft loans and tax deferrals**, including:
- Soft loans whether from public or private sources.
- Participatory loans from public or private sources.
- Advances repayable in the event of success.
- Deferred tax provisions (reserves, free or accelerated depreciation, etc.).

**D. Guarantees**

<table>
<thead>
<tr>
<th>Identification of State aid element for various State aid instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group</strong></td>
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<td>A1</td>
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<td>C1</td>
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<td>C1</td>
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<tr>
<td>C2</td>
</tr>
<tr>
<td>D</td>
</tr>
<tr>
<td>D</td>
</tr>
</tbody>
</table>
SUBSIDIES

NEW AND FULL NOTIFICATION PURSUANT TO ARTICLE XVI:1 OF THE GATT 1994 AND ARTICLE 25 OF THE AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES

UKRAINE

The following notification, dated 15 July 2015, is being circulated at the request of the Delegation of Ukraine.
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## INTRODUCTION

### 1 PART I. HORIZONTAL PROGRAMMES

1.1 Special Economic Zones and Priority Territories

1.2 Technological Parks

### 2 PART II. SECTORAL PROGRAMMES

2.1 Shipbuilding

2.2 Aircraft

2.3 Machinery for agriculture

2.4 Space Industry

2.5 Coal Mining

2.6 Book-Publishing
INTRODUCTION

This notification was prepared pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures.

This notification relates to subsidies granted in 2013 and 2014, and provides statistical information for respective years.

In preparing this notification, Ukraine has taken into account applicable "General Rules" listed in G/SCM/6/Rev.1.

1 PART I. HORIZONTAL PROGRAMMES

1.1 Special Economic Zones and Priority Territories

In reporting period the investment projects in SEZ and Priority Territories are implemented under the regular tax regime.

During reporting period there were not any changes in respect to policy/objective, background and authority, form of the subsidy, to whom and how the subsidy is provided, in comparison with information given in G/SCM/N/155/UKR of 26 May 2008, G/SCM/N/186/UKR of 3 July 2009, G/SCM/N/220/UKR of 7 July 2011 and G/SCM/N/253/UKR of 11 July 2013.

The only change is with regard to termination of the SEZ "Port Crymea" and PT in the Autonomous Republic of Crymea (The law of Ukraine of 12.08.2014 No. 1636).

Some tax privileges were granted to some enterprises by judgement of courts only.

Total amount:

<table>
<thead>
<tr>
<th>Form of Subsidy</th>
<th>SEZ, million UAH</th>
<th>Priority Territories, million UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>Exemption from income tax</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Exemption from import duties</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Deferment of VAT</td>
<td>221,5</td>
<td>243,3</td>
</tr>
<tr>
<td>Exemption from land tax</td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

1.2 Technological Parks

Policy objective and/or purpose

Encourage investment, promotion of research and development of new technologies.

Background and authority

The basic legislative acts providing for the establishment and functioning of the technological parks are contained in:

- Law of Ukraine "On Changes to the Law of Ukraine "On Special Regime of Innovation Activity of the Technological Parks" and other laws of Ukraine" of 12 January 2006 No. 3333-IV (with changes and amendments);
- Law of Ukraine "On innovation activity" of 4 July 2002 No. 40-VI (with changes and amendments);
- Law of Ukraine "On priority directions of the science and technology development" of 11 July 2001 No. 2623-II (with changes and amendments);
- Law of Ukraine "On State target programs" of 18 March 2004 No. 1621-IV;
- Law of Ukraine "On priorities of the Innovation Activity in Ukraine" of 16 January 2003 No. 433 IV (with changes and amendments);
- Decree of the Cabinet of Ministers of Ukraine of 17 December 1999 No. 2311 (with changes and amendments) approving the Procedure of Consideration and Approval of the Priority Directions of
Activity of the Technological Park, the Procedure of Consideration, Examination and Registration of Technological Park's Projects;
- Decree of the Cabinet of Ministers of Ukraine of 2 February 2011 No. 118 approving the procedure of accumulation of corporate income tax amounts on special account of technological park, use and control of such amounts;
- Decree of the Cabinet of Ministers of Ukraine of 21 March 2007 No. 517 approving the procedure of control and monitoring of the technological parks projects implementation;
- Decree of the Cabinet of Ministers of Ukraine of 29 November 2006 No. 1657 approving procedure for State registration of technological parks and its projects.
The relevant laws with regards to tax and import duty incentives are:
- Law of Ukraine of 6 December 2012 No. 5515-VI "On State Budget of Ukraine for 2013" (with changes and amendments);
- Law of Ukraine of 16 January 2014 No. 719-VII "On State Budget of Ukraine for 2014" (with changes and amendments);
- Law of Ukraine "On Customs Tariff of Ukraine" as amended by the Law of Ukraine of 19 September 2013 No. 584-VII.

Form

Accumulation of import duty and credit support.

Explanation of Benefits

Accumulation of import duty

Amount of import duties, which accrued during the import of new materials, equipment, components used to implement technological parks projects and are not produced in Ukraine, transferred to a special account and used solely for the purpose of scientific and technological activities, the development of scientific technical and scientific research base of the parks.

Credit support

Since 2006 each year the State Budget of Ukraine should foresee certain budget for:

Full or partial (up to 50%) loans with zero interest (with inflation indexation) for park's projects;

Full or partial compensation of interest paid by park's project implementation authority to commercial banks and other finance institutions for loans for park's projects.

However in 2013 and 2014 there have not been foreseen any funds in the State Budget for loan support.

Beneficiaries

Beneficiaries of the favorable regime are technological parks, their participants and joint enterprises implementing projects in priority areas.

Technological park – is a legal person or association of legal persons which are implementing innovative projects, implication of high technology developments.

Priority directions for each technology park are developed according to the Law of Ukraine "On Priority Directions of Science and Technology Development" of 11 July 2001 No. 2623- III, Law of Ukraine "On Priorities of Innovative Activity in Ukraine" of 16 January 2003 No. 433-IV, considered by the Presidium of the National Academy of Science and approved by the central government authority responsible for science issues.
**Amount**

<table>
<thead>
<tr>
<th>Description</th>
<th>2013, million UAH</th>
<th>2014, million UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usage of sums of import duty that are accumulated on a special accounts of parks and projects</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Credit support (Full or partial compensation of interest paid by park’s project implementation authority to commercial banks and other finance institutions for loans)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Full or partial loans with zero interest</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Exemption from income tax</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Duration**

The favorable regime for technological parks established for the period of 15 years and is acting during the implementation of technology park projects.

**Trade effects**

It is not possible to evaluate trade effects.
2 PART II. SECTORAL PROGRAMMES

The legislative bases for Ukraine's sectoral programs are found in:
- Enabling legislation specific to the sector itself (shipbuilding, aircraft etc.) cited below for each Sector; and
- The law applying a particular tax measure under for which assistance is provided (exemptions or deferral for import duties, VAT etc.).
- Law on State budget for respective year, such as:
  - Law of Ukraine of 6 December 2012 No. 5515-VI "On State Budget of Ukraine for 2013" (with changes and amendments);
  - Law of Ukraine of 16 January 2014 No. 719-VII "On State Budget of Ukraine for 2014" (with changes and amendments);

The Sector specific enabling legislation is identified under each of the supported sectors listed below.

The relevant tax laws providing benefits to enterprises in supported sectors are:
- Law of Ukraine "On Customs Tariff of Ukraine" as amended by the Law of Ukraine of 19 September 2013 No. 584-VII;
- Law of Ukraine "On the unified Customs Tariff" (with changes and amendments) of 5 February 1992 № 2097-XII (became invalid due to entry into force of the Customs Code of Ukraine, are applied certain transitional provisions);
- Customs Code of Ukraine (Law of Ukraine of 13.03.2012 No. 4495-VI);

2.1 Shipbuilding

Policy objective and/or purpose

The overall objectives for providing assistance to the shipbuilding industry are to:
- Promote better use of the industry's existing production and Research and Development facilities; and
- Encourage new investment in the industry to achieve greater efficiency and competitiveness.

Background and authority

Until 1 January 2012 the subsidy measures were provided under the Law of Ukraine "On Measures of State Support for the Ship-Building Industry in Ukraine" №1242-XIV (amended as of 15 June 2004 No. 1766- IV) and the Decree of the Cabinet of Ministers of Ukraine № 1256 of 21 December 2005 (with changes and amendments) approving the list of enterprises-beneficiaries of support of shipbuilding industry.

In 2013-2014, support was provided in accordance with the provisions of the Tax Code.

Form

Credit support

From 1 January 2013 till 1 January 2017, the support of seagoing crafts, river boats and other floating means, building and reconstruction of basic production assets of shipbuilding industry shall be provided by partial compensation of the interest paid to commercial banks for the provided credits. Every year a certain budget allocation should be foreseen by the Law of Ukraine "On State Budget" for providing such a support.

The procedure of use of such allocations from the State Budget is annually determined by the Cabinet of Ministers of Ukraine.
Though, in 2013 and 2014 no allocations were made for this purpose.
VAT payment deferral

Pursuant to section 3 of the Tax Code, the importation by shipbuilding enterprises under the customs regime into the customs territory of Ukraine of equipment and components that are not produced in Ukraine for use in economic activities, provided that customs declaration is completed, may present on their own customs authority (a customs authority shall accept) tax bill in the amount of tax liability on the value added tax, determined in such a customs declaration. List of equipment and components that are imported by domestic enterprises of shipbuilding industries and are not produced in Ukraine, is approved by the Cabinet of Ministers of Ukraine (see reference below).

Exemption from import duties

In accordance with paragraph 4 (6) of the transitional provisions of the Customs Code of Ukraine temporarily, until 1 January 2016, from import duty for importation into the customs territory of Ukraine and placing into the import customs regime are exempted: equipment and components that are not produced in Ukraine and imported to the customs territory of Ukraine by domestic enterprises of shipbuilding industry for use in their economic activities. The list of these goods with indication of tariff codes is approved by the Cabinet of Ministers of Ukraine;

The Resolution of the Cabinet of Ministers of Ukraine of 28 May 2012 No. 466 "On approval of the list of equipment and components that are not produced in Ukraine and imported to the customs territory of Ukraine by domestic enterprises of shipbuilding industry for use in economic activities, that are temporarily exempt from import duty when imported into the customs territory of Ukraine and the placed into the customs regime of import".

Exemption from corporate income tax

In accordance with subsection 17 of Section 4 of the Tax Code of Ukraine, starting from 01.01.2011 and for a period of 10 years, shipbuilding enterprises shall be exempted from taxation income earned from their operations.

Exemption from land tax

In accordance with subsection 6 of Section 4 of the Tax Code of Ukraine, until 1 January 2016 shipbuilding enterprises shall be exempted from land tax.

Beneficiaries

The Cabinet of Ministers of Ukraine approves a list of eligible shipbuilding enterprises according to the order determined in the Decree of Cabinet of Ministers of Ukraine of 12 July 2005, No. 555. The current approved list of enterprises appears in the Resolution of the Cabinet of Ministers of Ukraine of 21 December 2005, No. 1256 (last changes – by Decree of Cabinet of Ministers of Ukraine of 10 June 2009 No. 574).

Amount

<table>
<thead>
<tr>
<th></th>
<th>2013, thousand UAH</th>
<th>2014, thousand UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit support</td>
<td>Not applied</td>
<td>Not applied</td>
</tr>
<tr>
<td>Exemption from import duties</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Deferment of VAT</td>
<td>10,912.5</td>
<td>Not applied</td>
</tr>
<tr>
<td>Exemption from income tax</td>
<td>74,256.9</td>
<td>1,160.2</td>
</tr>
<tr>
<td>Exemption from land tax</td>
<td>32,631.8</td>
<td>22,285.2</td>
</tr>
</tbody>
</table>

Duration

Duration depends on the forms of support mentioned above in the relevant paragraphs.
Statistics for evaluation of trade effect

<table>
<thead>
<tr>
<th>Amount of production</th>
<th>2013, thousand UAH</th>
<th>2014, thousand UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seagoing crafts and other floating</td>
<td>Not available</td>
<td>Not available</td>
</tr>
<tr>
<td>means</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Total production, including production of enterprises-beneficiaries

2.2 Aircraft

Policy objective and/or purpose

The overall objective for providing aid to the aircraft construction industry is to promote an efficient use of existing production, research and development facilities and to encourage investment to provide for modernization of the industry.

Background and authority

Support is provided in accordance with the Law of Ukraine of 20.01.10 No. 1814-VI "On amendments to some of the laws of Ukraine concerning State support to aircraft industry in Ukraine".

The Law of Ukraine of 12.07.07 No. 2660-III "On aircraft industry development" (with changes and amendments).

The Law of Ukraine of 05.06.12 No. 4884-VI "On amendments to the Law of Ukraine on the development of the aircraft industry" concerning State supports for domestic sales of aviation equipment production.

The Decree of the Cabinet of Ministries of Ukraine of 21.07.10 No. 680 "On import on the customs territory of Ukraine of goods by aircraft enterprises" (with changes and amendments) clarifies requirements concerning eligible import volumes and ensuring of its proper end use.

Form

Exemption from import duty

In 2013 and 2014 in accordance with paragraph 4 of subsection 2 of section XX "Transitional Provisions" of the Tax Code of Ukraine (the Law of Ukraine of 02.12.2010 No. 2755-VI), subparagraph 2 of paragraph 4 of Section XXI "Transitional Provisions" of the Customs Code Ukraine (Law of Ukraine Act of Ukraine of 13.03.2012 No. 4495-VI) temporarily until 1 January 2016 are exempted goods, imported (reimported) by aircraft enterprises eligible by the Art. 2 of the Law "On aircraft industry development", by such HS (UKTZED) codes:

2707 20 90 00, 2707 30 10 00, 2707 99 80 00, 2710 11 21 00, 2710 19 81 00, 2710 19 99 00,
2712 20 90 00, 2805 30 90 00, 2818 10 90 00, 2827, 2835, 3204 90 00 00, 3207 40 30 00, 3208,
3209, 3211 00 00, 3214 10 10 10, 3603 00, 3604 90 00 00, 3703 30 00 00, 3703 90 10 00, 3824
10 00 90, 3824 90 35 00, 3824 90 40 00, 3824 90 50, 3824 90 65 00, 3901, 3909, 3911, 3917,
3919, 3920, 3921, 4002, 4005, 4006 90 00, 4008, 4009, 4011 30 00 30, 4016, 4017 00, 7003,
7007, 7019, 7202, 7205 10 00 00, 7205 29 00 00, 7207, 7208, 7209, 7211, 7212, 7213, 7214,
7215, 7217, 7218, 7219, 7220, 7221 00 10 00, 7223 00, 7224 90 18 00, 7225, 7226, 7227,
7228, 7229, 7304, 7307 00 10 00, 7312, 7315, 7318, 7326, 7407, 7409, 7411, 7413 00, 7419, 7502,
7504 00 00 00, 7505, 7506, 7507, 7508, 7601, 7603, 7604, 7605, 7606, 7607 11 90 00, 7607 19
99 00, 7607 20 91 00, 7608, 7609 00 00 00, 7616, 8101, 8102, 8104, 8105, 8108, 8111 00 90
00, 8112, 8307, 8409 10 00 00, 8411 11 00 00, 8411 12, 8411 21 00 00, 8411 22 20 00, 8411 22
80 00, 8411 81 00 00, 8411 82, 8411 91 00 00, 8411 99 00 00, 8412 10 00 10, 8412 21 80 10,
8412 29 89 10, 8412 31 00 91, 8412 39 00 10, 8412 80 80 10, 8412 90 20 10, 8412 90 80 10,
8413 19 00 00, 8413 20 00 00, 8413 30 20 00, 8413 30 80 00, 8413 50 40 00, 8413 50 69 00,
8413 50 80 00, 8413 60 39 00, 8413 60 69 00, 8413 60 70 00, 8413 60 80 00, 8413 70 21 00,
8413 70 29 00, 8413 81 00 00, 8413 91 00 90, 8414 10 89 10, 8414 20 80 10, 8414 30 20 10, 8414 30 81 10, 8414 30 89 10, 8414 51 00 10, 8414 59 20 91, 8414 59 40 10, 8414 59 80 10, 8414 80 11 10, 8414 80 19 10, 8414 80 22 91, 8414 80 28 10, 8414 80 73 91, 8414 90 00 00,
The Cabinet of Ministers approves the volume and procedure for import of such goods (Decree of the Cabinet of Ministries of 21.07.10 No. 680).

If end use of these goods was improper or imported eligible volumes were exceeded then to the aircraft enterprises apply provisions of the Law of Ukraine "On the procedure of paying off taxpayers' debts to the Budget and State special funds".

Exemption from VAT

In accordance with paragraph 4 of subsection 2 of section XX "Transitional Provisions" of the Tax Code of Ukraine (the Law of Ukraine of 02.12.2010 No. 2755-VI) the aircraft enterprises eligible by the Art. 2 of the Law "On aircraft industry development" are exempted from VAT on such operations:

- Importation in the customs territory of Ukraine in the import (reimport) regime of goods (except excise goods) what used for aircraft industry needs, if such goods are exempted from import duty in accordance with subparagraph 2 of paragraph 4 of Section XXI "Transitional Provisions" of the Customs Code of Ukraine (the Law of Ukraine Act of Ukraine of 13.03.2012 No. 4495-VI);
- Supply in the customs territory of Ukraine of results of research and development activities what conducted for aircraft industry needs.

If legal requirements were violated then to the aircraft enterprises apply provisions of the Law of Ukraine "On the procedure of paying off taxpayers' debts to the Budget and State special funds".

Exemption from land tax

The aircraft enterprises eligible by the Art. 2 of the Law "On aircraft industry development" are exempted from land tax then their land is directly used for production of final products in particular: aircraft, it's corps, engines, including warehouses, hangars, runways, and places for
aircraft refueling points and flight control.
Bonus or accelerated depreciation

In accordance with the Law “On corporate income tax” bonus depreciation is the depreciation of main assets that provides for inclusion of part of the costs for its acquisition (construction) to gross costs of the taxpayer and further depreciation of residual value of main assets under general norms.

Accelerated depreciation is the depreciation of main assets what carried out by double general norms.

Simultaneous application of bonus and accelerated depreciation to the same main assets is not allowed.

Temporary till 1 January 2016 eligible aircraft enterprises have the right to apply bonus depreciation to the new (which were not in use) main assets of 50% to book value of main assets of group 3 and 100% for group 4 by the results of the first reporting period when objects of such main assets were put into operation if these objects used exclusively for:

a. development and production of aircraft techniques and engines;

b. conversion, repair, modification, technical service of aircraft techniques and engines;

c. research and development for aircraft industry.

Exemption from corporate income tax

In accordance with paragraph 17 (r’) of subsection 4 of the Tax Code of Ukraine from 01.01.2011 for a period of 10 years aircraft enterprises shall be exempt from corporate income tax, resulting from operations, as well from research and development work performed by such enterprises for the needs of aircraft industry;

Credit support

From 1 January 2013 till 1 January 2017 is implemented State support of aviation equipment of domestic production through the mechanism of partial compensation of the interest paid to commercial banks for the provided credits. Every year a certain budget allocation should be foreseen by the Law of Ukraine “On State Budget” for providing such a support.

The procedure of use of such allocations from the State Budget is annually determined by the Cabinet of Ministers of Ukraine.

Though, in 2013 and 2014 no allocations were made for this purpose.

Making payments in foreign currency

In accordance with the Law of Ukraine of 23.09.94 No. 185/94-VR “On making payments in foreign currency” the final payments for export and import transactions of eligible aircraft enterprises are carried out not later than 500 calendar days after the transfer of down payments for development, production, conversion, repair, modification, technical service of aircrafts and engines.

Beneficiaries

Legal entities – residents of Ukraine that carry out activity in aircraft industry and have respective licenses and certificates granting the rights for development or production, or repair, or conversion, or modification or technical service of aircrafts and aircraft engines, and meet at least two of the following criteria:

a. Develop aircrafts and aircraft engines, produce aircrafts and aircraft engines, repair aircrafts and aircraft engines;
b. Fulfill State or military order on development of aircrafts and aircraft engines, production of aircrafts and aircraft engines, repair of aircrafts and aircraft engines;
c. Ensure implementation of international obligations of Ukraine by international contracts on development of aircrafts and aircraft engines, supply of aircrafts and aircraft engines, production of aircrafts and aircraft engines, repair of aircrafts and aircraft engines.

List of eligible aircraft entities approved by the Decree of the Cabinet of Ministers of 09.06.10 No. 405 and of 12.02.2014 No. 56.

Amount

<table>
<thead>
<tr>
<th>Exemption from import duty</th>
<th>2013, thousand UAH</th>
<th>2014, thousand UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>6162,1</td>
<td>5570,5</td>
<td></td>
</tr>
</tbody>
</table>

| Exemption from VAT on import of goods | 285 405,7 | 345 787 |

| Exemption from VAT on supply of research results | 14 871,6 | 20 584,2 |

| Exemption on land tax | 44 237,4 | 43 809,1 |

| Exemption from corporate income tax | 387 098,1 | 642 723,3 |

Duration

Until 1 January 2016 (on credit support – until 1 January 2017).
Exemption from corporate income tax established for 10 years from 01.01.2011.

Statistics for estimation of trade effects

<table>
<thead>
<tr>
<th>Production by industry*</th>
<th>2013, thousand UAH</th>
<th>2014, thousand UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not available</td>
<td>Not available</td>
<td></td>
</tr>
</tbody>
</table>

* Total production, including production of enterprises-beneficiaries

2.3 Machinery for agriculture

Policy objective and/or purpose

Creation of favorable economic conditions for increasing the production of agricultural machinery and equipment for the food processing industry, improving the system of ensuring domestic agriculture machinery and equipment.

Background and authority

Law of Ukraine "On the promotion of the domestic machinery for agriculture" of 07.02.2002 No. 3023-III;

Resolution of the Cabinet of Ministers of Ukraine "On approval of the purpose State program of the technology policy realization in agriculture for the period until 2015" of 30.05.2007 No. 785;

Law of Ukraine of 6 December 2012 No. 5515-VI "On State Budget of Ukraine for 2013" (with changes and amendments);

Law of Ukraine of 16 January 2014 No. 719-VII "On State Budget of Ukraine for 2014" (with changes and amendments);

Law of Ukraine of 4 April 2013 No. 183-VII "On amendments to Customs Code of Ukraine and some others laws of Ukraine".

Form:

Reimbursement of interest rates on loans
partial (70% compensation of the rate of the National Bank of Ukraine on bank credits granted to enterprises of domestic machinery for the manufacture of agricultural machinery and equipment.
for agriculture, and government support of banks that provide long-term financing of these enterprises;

partial (40 %compensation by the State of the cost of agricultural machinery and equipment, supplied for agricultural producers and enterprises and for food and processing industry;

Loans to domestic agricultural machinery is carried out in order to provide loans on a general basis and as special treatment credit, which provides up to 70 % discount rate of the National Bank of Ukraine on bank credits.

In 2013 – 2014 no budget was allocated in the State Budget of Ukraine for this purposes.

**Exemption from corporate income tax**

In accordance with paragraph 17 of subsection 4 of the Tax Code of Ukraine from 01.01.2011 for a period of 10 years agricultural machinery enterprises shall be exempt from corporate income tax. However this provision was terminated since 1 January 2015 (Law of Ukraine of 28.12.2014 No. 41-VIII concerning tax reform).

**Exemption from import duty**

In accordance with subparagraph 8 of paragraph 4 of Section XXI "Transitional Provisions" of the Customs Code of Ukraine, temporarily, until 1 January 2017, materials, components, devices and/or supplies are exempt from import duty for importation into the customs territory of Ukraine and placing into the customs regime of import if they are imported into the customs territory of Ukraine by national agricultural machinery enterprises (if such goods are not produced in Ukraine). Specified in this subparagraph goods exempt from tax provided that the goods are used for the production of taxable machinery and / or equipment for agriculture referred to in part 1 of Article 1 of the Law of Ukraine "On the promotion of the domestic machinery for agriculture". Procedure for importation, the list of such enterprises and the list of products with the tariff codes are established by the Cabinet of Ministers of Ukraine.

Resolution of the Cabinet of Ministers of Ukraine of May 23, 2012 No. 459 "On issues of importation into the customs territory of Ukraine of materials, parts, components and / or component parts for production machinery and / or equipment for agriculture."

However in 2013 – 2014 none of the eligible producers have used this form of support.

**Beneficiaries:**

Agricultural machinery enterprises – residents in Ukraine that produce domestic machinery and equipment for agriculture, i.e., vehicles, machinery, equipment, technological complexes and lines are used in agriculture, food and processing industry for works on cultivation, harvesting, storage and processing of agricultural products.

**Amount:**

<table>
<thead>
<tr>
<th></th>
<th>2013, thousand UAH</th>
<th>2014, thousand UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reimbursement of interest rates on loans</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Exemption from corporate income tax</td>
<td>52,392.9</td>
<td>50,719.1</td>
</tr>
<tr>
<td>Exemption from import duty</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Duration:**

Amount of support for privileged crediting is determined annually according to the State Budget. Exemption from corporate income tax established from 01.01.2011 till 31.12.2014. Exemption from import duties established until January 1, 2017.
Statistics for estimation of trade effects

<table>
<thead>
<tr>
<th>Production by beneficiaries</th>
<th>2013, million UAH</th>
<th>2014, million UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural machinery, tractors, seeders, harvesters</td>
<td>Not available</td>
<td>Not available</td>
</tr>
</tbody>
</table>

### 2.4 Space Industry

**Policy objective and/or purpose**

Support is intended to preserve and effectively employ the existing scientific, research, and production potential of Ukraine's space industry as a priority component of the high technology sector and to encourage investment as to ensure the future viability of the industry.

**Background and authority**

Preferential tax treatment for eligible enterprises in the space industry was provided for in the Law of Ukraine "On State Support of Space Activity" No. 1559-III of 16 March 2000. In 2013 and 2014 the support was provided according to the following regulations:

- Law of Ukraine of 15.11.1996, No.502/96-VR "On Space Activities" (with changes and amendments);
- "Customs Code of Ukraine" dated 13.03.2012, No. 4495-VI;
- Resolution of the Cabinet of Ministers of Ukraine of 29 December 2010 No. 1248 "On approval of the list of subjects of space activities that are exempt until January 1, 2015 from land tax for land for production purposes";
- Resolution of the Cabinet of Ministers of Ukraine of 3 February 2010 No. 102 "On issues of importation into the customs territory of Ukraine goods within the international treaties (agreements) of Ukraine ratified by Verkhovna Rada of Ukraine on Space Activity as to creating space equipment without payment of import duties and value added tax";
- Resolution of the Cabinet of Ministers of Ukraine of 3 February 2010 No. 102 "Issue of importation into the customs territory of Ukraine goods within international treaties (agreements) of Ukraine ratified by the Verkhovna Rada of Ukraine on Space Activity as to creation of space equipment without payment of import duties and value added tax" (with changes and amendments);
- Law of Ukraine of 6 December 2012 No. 5515-VI "On State Budget of Ukraine for 2013" (with changes and amendments);

**Form:**

Exemption from VAT

Pursuant to subparagraph 4 of paragraph 4 of Section XXI of the Customs Code of Ukraine and subparagraph "a" of paragraph 3 of subsection 2 of section XX of the Tax Code of Ukraine during the validity of international treaties of Ukraine ratified by the Verkhovna Rada of Ukraine on Space Activity on creating space technology (including the units, systems and components for space systems, space launch vehicles, spacecraft and ground segments of space systems) but not later than 1 January 2018, the following operations are exempt from paying value added tax:
import into the customs territory of Ukraine under the customs regime of import of goods referred to in subparagraph 4 of paragraph 4 of Section XXI "Transitional Provisions" of the Customs Code of Ukraine, within the limit values set by the Cabinet of Ministers of Ukraine, provided proper use
of such products in the production of space equipment (including the units, systems and components for space systems, space launch vehicles, spacecraft and ground segments of space systems) by the residents - entities of space activity, which received a license for such activities and participate in the implementation of international agreements. List of such residents - entities of space activity is set by the Central Executive Body to Public Policy in the Field of Space Activities.

The order and import volumes of the above products are governed by the Resolution of the Cabinet of Ministers of Ukraine of 3 February 2010 No. 102 (with changes and amendments).

In case of infringement of proper use of the goods or exceeding limit values of imports established by the Cabinet of Ministers of Ukraine, the corresponding entity of space activity, which effectively allowed the right to tax incentives, be deemed to have deliberately evaded tax and penalties applied to it (financial) sanctions in accordance with applicable law.

Exemption from import duty

In accordance with subparagraph 4 of paragraph 4 of Section XXI of the Customs Code of Ukraine, temporarily, until 1 January 2018, the following goods are exempt from import duty for importation into the customs territory of Ukraine and placing into the customs regime of import: those imported into the customs territory of Ukraine by residents - the entities of space activity, within the frame of ratified by the Verkhovna Rada of Ukraine international treaties of Ukraine on Space Activity on production of space equipment (including the units, systems and components for space systems, space launch vehicles, spacecraft and ground segments of space systems) by such HS (UKTZED) codes: 2818 10, 2830 90 85 00, 2837, 2901, 2903, 2921, 2929, 2931 00 95 90, 3207 20, 3208, 3209, 3214, 3403, 3506, 3602 00 00 00, 3603 00, 3604, 3701, 3703, 3707, 3810, 3814 00, 3901, 3903, 3906, 3907, 3908 90 00 00, 3909, 3911, 3917, 3919, 3920, 3921, 3926, 4002, 4005, 4008, 4016, 4017 00 10 00, 4823 40 00 00, 4901, 4906 00 00 00, 5208, 5407, 5607, 5903, 5906, 5911 90 90, 6815 10, 6902, 7002, 7007 11 90 00, 7019, 7211, 7214, 7215, 7217, 7219, 7220, 7222, 7223 00, 7224-7226, 7228, 7229, 7304, 7407, 7409-7411, 7413 00, 7505, 7506, 7508, 7601, 7604-7608, 7616, 8101, 8102, 8104, 8105, 8108, 8112, 8307, 8412, 8414, 8421, 8471, 8473, 8479, 8482, 8483 30 80, 8501, 8504, 8506, 8507, 8517, 8523, 8526, 8529, 8532, 8533, 8536-8538, 8540-8544, 8547, 8803, 9014, 9015, 9023 00, 9026, 9027, 9030-9032, 9033 00 00 00, 9306 90 10 00.

The Cabinet of Ministers approves the volume and procedure for import of such goods (Decree of the Cabinet of Ministries of 03.02.2010 № 102 (with changes and amendments).

Exemption from land tax

Pursuant to subsection 6 "Features levying land tax" of the Tax Code of Ukraine during the action of the ratified by Verkhovna Rada of Ukraine international treaties (agreements) of Ukraine on Space Activity on production of space equipment (including the units, systems and components for space systems, space launch vehicles, spacecraft and ground segments of space systems), but not later than 1 January 2018, residents – subjects of space activity, which received a license for its implementation and participate in the implementation of such treaties (agreements), shall be exempted from land tax for use of land for production purposes. The list of the eligible residents - subjects of space activity is approved by the Resolution of the Cabinet of Ministers of Ukraine of 29 December 2010 No. 1248.

Beneficiaries

The subjects of space activity – companies, institutions and organizations, including international and foreign, which according to the Law of Ukraine "On Space Activity" No. 502/96 of 15 November 1996 (with changes and amendments), are engaged in space activities, such as scientific space research, development and application of space equipment and use of space.
Amount

<table>
<thead>
<tr>
<th>Exemption from import duties</th>
<th>2013, million UAH</th>
<th>2014, million UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exemption from VAT on import</td>
<td>14,1</td>
<td>18,3</td>
</tr>
<tr>
<td>Exemption from land tax</td>
<td>64,2</td>
<td>63,2</td>
</tr>
</tbody>
</table>

Duration

During validity of the international treaties of Ukraine on Space Activity on production of space equipment, until 1 January 2018.

Statistics for estimation of trade effects

<table>
<thead>
<tr>
<th>Production of beneficiaries in comparative prices</th>
<th>2013, million UAH</th>
<th>2014, million UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,108.2</td>
<td>3,226.1</td>
</tr>
</tbody>
</table>

2.5 Coal Mining

Policy objective and/or purpose

To assist in restructuring and modernization in the coal mining sector, raising industrial safety, labour safety improvement.

Background and authority

In 2013, the State support for the coal mining industry was provided according to the Law on the State Budget of Ukraine for 2013 and regulations of the Cabinet of Ministers of Ukraine:

Resolution of the Cabinet of Ministers of Ukraine of March 11, 2011 No. 236 "On approval of the use of funds allocated in the State budget for restructuring of the coal and peat mining industry" (with changes and amendments);

Resolution of the Cabinet of Ministers of Ukraine of February 23, 2011 No. 154 "On approval of the use of funds provided in the State budget for the implementation of mine-rescue measures on mining enterprises" (with changes and amendments);

Resolution of the Cabinet of Ministers of Ukraine of February 23, 2011 No. 153 "On approval of the use of funds allocated in the State budget to offset the cost of coal mining enterprises, included in the cost of finished marketable coal products" (with changes and amendments);

Resolution of the Cabinet of Ministers of Ukraine of 13 April 2011 No. 398 "On approval of the use of funds provided in the State budget to occupational safety and improving worker safety at coal mining enterprises" (with changes and amendments);

Resolution of the Cabinet of Ministers of Ukraine of 8 October 2012 No. 988 "On approval of the use of funds allocated in the State budget for technical modernization of coal and peat mining enterprises, technical re-equipping of indicated enterprises" (with changes and amendments);

According to the Law of Ukraine of 05.12.2012 No. 5515-VI, it was foreseen in the State Budget of Ukraine for 2013:

- restructuring of coal and peat industry – 1 213 279,2 thousand UAH;
- support to the coal mining enterprises for partial refund of the expenses on production cost finished marketable coal products – 13 301 847,8 thousand UAH;
- technical modernization of coal and peat mining enterprises, technical re-equipping of indicated enterprises – 351 303,3 thousand UAH;
According to the Resolution of the Cabinet of Ministers of Ukraine of 3 July 2013 No. 472-r "On redistribution of some budget expenses and transfer of budget allocations foreseen in 2013 in the Ministry of Finance of Ukraine" under the State Budget program "State support of coal and peat mining enterprises, technical re-equipping of indicated enterprises" expenses are increased by 20 000 thousand UAH.

In 2014, the State support for the coal mining industry was provided according to the Law on the State Budget of Ukraine for 2014 and regulations of the Cabinet of Ministers of Ukraine:

Resolution of the Cabinet of Ministers of Ukraine of 11 March 2011 No. 236 "On approval of the use of funds allocated in the State budget for restructuring of the coal and peat mining industry" (with changes and amendments);

Resolution of the Cabinet of Ministers of Ukraine of 23 February 2011 No. 153 "On approval of the use of funds allocated in the State budget to offset the cost of coal mining enterprises, included in the cost of finished marketable coal products";

Resolution of the Cabinet of Ministers of Ukraine of 8 October 2012 No. 988 "On approval of the use of funds allocated in the State budget for technical modernization of coal and peat mining enterprises, technical re-equipping of indicated enterprises" (with changes and amendments);

Resolution of the Cabinet of Ministers of Ukraine of 1 March 2010 No. 243 "On approval of the State Targeted Economic Program of the energy efficiency and development of energy production of renewable energy sources and alternative fuels for 2010-2015".

According to the Law of Ukraine of 16.01.2014 No. 719-VII, it was foreseen in the State Budget of Ukraine for 2014:

- restructuring of coal and peat mining industry – 355 118,1 thousand UAH;

- support to the coal mining enterprises for partial refund of the expenses on production cost finished marketable coal products – 8 705 394,1 thousand UAH;

- technical modernization of coal and peat mining enterprises, technical re-equipping of indicated enterprises – 54 324,4 thousand UAH;

**Form**

Restructuring of coal and peat mining industry (granting funds for financing of liquidation of unprofitable mines)

In accordance with the Decrees of the Cabinet of Ministers No. 236 of 18.03.2011 the budget funds are directed to:

- preparation of coal mining enterprises to liquidation (preparation for transfer or cancellation of reserves of coal and other minerals, mining, machinery and equipment that is not used during the work associated with the physical liquidation of coal enterprises; reducing the number of employees; the arrears of wages and social benefits to compensate for damage caused to the health of employees in the performance of job duties; free for domestic coal; receive land titles and ownership of land and the right of permanent land use; environment protection and preventing from dangerous effects of coal enterprises preparing for liquidation, at the existing companies, buildings, environment and human health; drafting of liquidation and State control implementation plans);

- liquidation of coal and peat mining enterprises (physical liquidation of these enterprises, environmental protection, safety of surveying existing businesses and surrounding areas to overcome the negative social and economic consequences of liquidation in accordance with the duly approved procedure of liquidation projects);
maintenance of drainage facilities financing, construction and reconstruction of which is foreseen by the projects of mines liquidation, provided that ensuring of their continued functioning is not included to the cost of such projects.

repayment of debts by companies that restructured for the electricity used in prior years;

Budget funds are used to improve the efficiency of the coal industry through works and activities realization in preparation to the liquidation of coal mining, coal processing and peat mining enterprises and liquidation measures (legal and physical) of such enterprises, ensuring the maintenance of drainage facilities.

Partial refund of production costs

The State-owned coal mining enterprises (including brawn coal producers) use the budget funds for salary payments and for compulsory payments, such as electricity and securing warranty obligations as to reimbursement of budgetary credits, received for discharge the salary indebtedness.

The funds are distributed between the State enterprises, which allocate the money on partial covering the expenses on production cost of their own coal products for 1 Hryvna cost of such a product, at the condition that the volume of the produced product (by the anticipated sale price) does not cover the cost of production.

The list of such enterprises is determined by the Ministry of Energy and Mines on the basis of economic performance of companies and their plans for the year.

Beneficiaries:

The program concerns black coal, brown coal and peat producing enterprises of State ownership what are preparing to liquidation and objects of enterprises, which are being liquidated.

Funding for technical re-equipment of coal mines

In accordance with the Decrees of the Cabinet of Ministers of Ukraine of 20 June 2011 No. 836, of 8 October 2012 No. 988 (with changes and amendments) and of 11 September 2013 No. 637, the budget for this program is provided on a non-returnable basis.

Budget funds are used to improve the efficiency of mining enterprises machinery to meet the needs of branches of the national economy with high-quality coal and peat production and aimed at:

1) technical re-equipment of:
   - coal mines (treatment, tunnel faces and stationary technological systems);
   - peat mining enterprises, including briquetting plants;

2) compensation of interest on loans to companies involved in the 2012-2013;

3) implementation of the mining equipment renovation program.

The list of coal mines prepare the Ministry of Energy and Mines by competitive selection procedure, which is set by the mentioned Ministry.

Funding for the construction of coal and peat mining enterprises

According to the Decrees of the Cabinet of Ministers of Ukraine of 9 March 2011 No. 226, of 2 April 2012 No. 286, of 8 October 2012 No. 988, of 20 February 2013 No. 117 and of 11 September 2013 No. 673 the budget allocated to coal and peat mining enterprises on non-returnable basis.

Budget funds are used to improve the efficiency of enterprises to meet the needs of industries in the required amount of coal and peat by the construction, reconstruction, technical re-equipment of enterprises that provide support, increase of their production capacity for the extraction and
processing of coal and peat, improving working conditions and increasing safety, and aimed at:

1) implementation of capital construction projects;
2) compensation for interest on loans attracted for technical re-equipping;
3) technical upgrading of public peat mining enterprises;

Beneficiaries:

The programs are applied to coal and peat producing enterprises of State ownership.

<table>
<thead>
<tr>
<th>Amount</th>
<th>2013, thousand UAH</th>
<th>2014, thousand UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partial refund of production costs</td>
<td>13,301,847.8</td>
<td>8,705,394.9</td>
</tr>
<tr>
<td>Restructuring of coal and peat industry</td>
<td>1,178,418.0</td>
<td>355,118.1</td>
</tr>
<tr>
<td>support of technical re-equipment</td>
<td>342,803.5</td>
<td>54,324.4</td>
</tr>
</tbody>
</table>

Duration

Is not determined, on the annual basis.

Statistics for estimation of trade effects

<table>
<thead>
<tr>
<th>Amount produced by the enterprises - beneficiaries</th>
<th>2013, million tons</th>
<th>2014, million tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black coal</td>
<td>24.1</td>
<td>16.0</td>
</tr>
<tr>
<td>Brown coal</td>
<td>Not available</td>
<td>Not available</td>
</tr>
<tr>
<td>Peat</td>
<td>Not available</td>
<td>Not available</td>
</tr>
</tbody>
</table>

2.6 Book-Publishing

Policy objective and/or purpose

Overcoming of the crisis in this sector and providing for development of Ukrainian book-publishing.

Background and authority


Form:

Exemption from import duties

Exemption applies to imports of products used for book-publishing (for example, paints, cellulose, polygraphic materials, equipment) that are not produced in Ukraine. The list of inputs to be exempted presented in subparagraph 1 of paragraph 4 of Section XXI "Transitional Provisions" of the Customs Code of Ukraine.

Exemption from VAT on imports

The same as for import duties and also for operation on supplying of these goods to publishing-houses and publishing organizations, polygraphic enterprises on the territory of Ukraine.
Exemption from VAT on domestic sales:

Exemption applies to supply of services by business entities-residents of Ukraine which simultaneously conduct books-publishing activity and activity of production and distribution of books and production of paper and cardboard. The gross income of such business entity from mentioned activity should be not less 100% of its total gross income in the first reporting (fiscal) period from the time of its establishment or not less 50% of its total gross income in the previous reporting (fiscal) period.

The following operations are exempt from VAT:

performance and delivery of services in publishing, in activities on production and distribution by publishers, publishing organizations, printing businesses, distributors of book products manufactured in Ukraine, real production and /or supply of paper and cardboard, produced in Ukraine for the production of books, student notebooks, textbooks of domestic production as well as and operation on supply of books produced in Ukraine, except for advertising, services on placement of advertising and erotic materials and advertising and erotic publications.

Exemption from Corporate Income Tax

Exempted income of publishing-houses and publishing organizations, polygraphic enterprises, received from publishing activity in Ukraine, exempt publishing materials of erotic nature.

Beneficiaries:

Publishing-houses and publishing organizations, polygraphic enterprises and distributors of books-publishing production which conducting their activity in accordance with the Law of Ukraine "On publishing" No 318/97-VR of 5 June 1997 (with changes and amendments).

Amount

<table>
<thead>
<tr>
<th></th>
<th>2013, million UAH</th>
<th>2014, million UAH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exemption from Corporate Income Tax</td>
<td>37,7</td>
<td>33,8</td>
</tr>
<tr>
<td>Exemption from import duties</td>
<td>4,1</td>
<td>3,4</td>
</tr>
<tr>
<td>Exemption from VAT on imports</td>
<td>843,9</td>
<td>607,05</td>
</tr>
<tr>
<td>Exemption from VAT on domestic sales</td>
<td>3,8</td>
<td>2,3</td>
</tr>
</tbody>
</table>

Duration

From 1 January 2004 till 1 January 2015.

Statistic for estimation of trade effects

<table>
<thead>
<tr>
<th>Production</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of titles of books and brochures, published items</td>
<td>304</td>
<td>198</td>
</tr>
<tr>
<td>Annual Edition, thousands items</td>
<td>1278,7</td>
<td>975,4</td>
</tr>
</tbody>
</table>
STANDARDISED REPORTING FORMAT FOR EXISTING STATE AID *(used in the EU)*

(This format covers all sectors except agriculture)

In order to further simplify and improve the annual reporting of State aid, the Commission provides Member States, by 1 March each year, with a pre-formatted online and access-based platform, containing detailed information on all existing aid schemes and individual aid. Member States must check and complete that information by 30 June of the same year. That will enable the Commission to publish State aid data in year $t^{11}$ for the reporting period $t-1$.

The bulk of the information in the platform is pre-completed by the Commission on the basis of data provided at the time of approval of the aid. Member States will be required to check and, where necessary, modify the details for each scheme or individual aid, and to add the annual expenditure for the latest year ($t-1$).

Information such as the objective of the aid and the sector to which the aid is directed must refer to the time at which the aid is approved and relate to the legal instrument which forms the basis for the approval of the aid.

The following information must be included.

1) Title

2) Aid number

3) Previous aid numbers (e.g., following the renewal of a scheme)

4) Sector

   The sectoral classification shall be based largely on NACE at the [three-digit level.]

5) Objective

6) Region(s)

   Aid may, at the time of approval, be exclusively earmarked for a specific region or group of regions according to subparagraphs (a) or (c) of Article 107(3) TFEU.

7) Category of aid instrument(s)

   A distinction must be made between several categories (Grant, Subsidised services, Interest rate subsidy, Loan, Guarantee, Tax advantage, Repayable advances, Equity participation, Other)

8) Type of aid

   A distinction must be made between three categories: Scheme, Individual application of a scheme, Individual aid awarded outside of a scheme (ad hoc aid)

9) Expenditure

   As a general rule, figures should be expressed in terms of actual expenditure (or actual revenue foregone in the case of tax advantages). Where payments are not available, commitments or budget appropriations must be provided and flagged accordingly.

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11 This is the year in which the data are requested.
Separate figures must be provided for each aid instrument within a scheme or individual aid for example grant and loans. Figures must be expressed in the national currency in application at the time of the reporting period. Expenditure must be provided for t-1, t-2, t-3, t-4 and t-5.