
Session II: “Challenges for Economic Development and Energy and Environmental Cooperation in the Black Sea Area”

Mykola KULINICH
Ambassador of Ukraine to Japan

Addressing the Challenges to Economic Development in the Black Sea Area: a Ukraine’s vision

Ladies and Gentlemen,

It is an honor for me to have a keynote speech at the Third Japan-Black Sea Area Dialogue addressing the issues of economic development in the region. For my country, Ukraine, Black Sea Region is strategically important in terms of both economic cooperation and national security. The pace of regional integration of BSEC is closely related to the economic development of each of the member-countries as well as interregional trade, financial and energy cooperation.

On the one hand, half of the states in the Black Sea Area are under the process of the political and economic transformation aimed at economic liberalization and reforms. The differences in the level of economic development, membership status in EU and WTO and size of the economies put a lot of challenges to economic cooperation within the institutional framework of the regional organization. On the other hand, BSEC countries with the population of 330 mil people, rich of national resources, developed industrial base have a significant potential for developing closer economic ties in many areas, such as energy, infrastructure, finance, trade, agriculture, tourism and environmental policy.

I would like to note that from November 2007, when the 2nd Japan Black Sea Area Dialog was held, to April 2008 Ukraine exercised Chairmanship in BSEC. During this time we held a number of events to promote sectoral cooperation in different areas of economy, for example, the First BSEC Banking Forum in Kyiv, the First Container Summit in Odessa, a number of other ministerial meetings on energy, transport, science and technology, education, custom services.

Further, I would like to briefly touch upon challenges to economic development in the Black Sea Area, which require collective and coordinated actions of the member-states.

1. Nowadays the financial economic crisis, which started in September 2008 and adversely affected the global economy, became a new test for the BSEC regional economic development and cooperation. As a result of capital outflows, falling industrial output and demand, high unemployment rate, and banks' liquidity squeeze, the period of high economic growth in many BSEC countries has ended. Ukraine is not an exception and, unfortunately, is in the list of the countries which suffered the most because of the export dependent economic structure and weak banking system. Although the damage from the crisis varies from country to country, the overall impact on the Black Sea Region was very negative. In 2009 it is expected that the GDP growth rate in Black Sea Area would be -6-7%.

The current crisis demonstrated how economically interconnected and interdependent countries are, and that they cannot tackle the global crisis only on a domestic level, but must join their efforts and act together to fight with the consequences of the crisis and take measures to prevent a new one.

On an individual basis, national governments used various financial mechanisms to avoid collapse of banking system and stimulate the economy. Some of the countries, including Ukraine, Romania, Serbia and others received financial assistance from IMF and other international institutions. While these measures are effective to a certain extent, it is desirable to develop financial and banking cooperation, which aims at risk reduction and collective guarantees on the regional level.

In this regard, financial activities of BSEC, especially the Working Group of Banking and Finance, as a consultation mechanism, and Black Sea Trade and Development Bank require a special attention. I hope that in spite of the crisis the Bank will continue its participation in large-scale investment projects contributing into the process of overcoming the economic instability in the region.

Japan also felt the negative impact of the world economic crisis. But in spite of this Japan did not turn away its attention from the problems of other countries, but became a major donor to international financial organizations to help countries in need support their economies. I should note that the third IMF tranche to Ukraine in July 2009 was fully covered by Japan's additional 100 bln dollars contribution to IMF. I greatly appreciate Japanese financial assistance and hope Japan will be able to help BSEC countries stabilize their economies not only through IMF, but also through private investments.

2. Another challenge to the economic development in the Black Sea Area is energy security and disproportional distribution of energy resources. Traditionally the region was a major transit zone with big energy suppliers, such as Russia and Azerbaijan. Thus, energy cooperation within the region as well as with energy importers outside the region such as the EU countries, have an important implication for economic development.

BCES Declaration on Cooperation with the EU in the Field of Energy, which was signed in April 2008 in Kyiv, and the Yerevan Declaration on Energy Cooperation in the BSEC Region, which was adopted by Energy Ministers in March last year, clearly demonstrated the will to coordinate energy policy and integrate energy markets of the BSEC countries as well as the EU. However, consensus on energy strategies of the member countries should be strengthened by practical implementation of joint projects. Ukraine, as a major transit state between Europe and Asia, has a strategic interest in energy cooperation within BSEC and BSEC-EU frameworks and interested in improving energy transportation infrastructure and mutually beneficial diversification of energy resources.

An important component of energy security and independence of any state is diversification of energy resources supply and stability of energy resources transit. In the framework of realization of the energy policy, aimed at strengthening of the Ukraine's position as a reliable partner in energy sphere, my country is actively working on the issues of establishment of new routes of energy transportation from Caspian and Middle East regions. For example, During the Third Energy Summit in Kyiv, which was held in May, 2008, the President of Ukraine Victor Yushchenko initiated the Concept of the Caspian-Black Sea-Baltic Energy Space in order to provide reliable, transparent and predictable energy supply to Europe. Currently the priority project in the framework of the mentioned concept is establishment of the Euro-Asian Transit Corridor.

In the future, the Caspian-Black Sea-Baltic Energy Space will help strengthen the trust between countries in the region and reduce risks over the whole energy chain – from energy exploration in Caspian Sea, energy transit via Black Sea to supply on the European market.

Heavy dependency of the most of the BSEC countries on external supply of oil and gas calls for the need to increase energy efficiency and diversify energy sources. While joint projects in energy exploration and transportation require political will of the member states to cooperate, realization of energy saving projects could be more viable. In this regard, Japan as a pioneer of advanced technologies and one of the most energy efficient countries could be a strategic partner for BCES countries.

I can give you an example of such cooperation between Ukraine and Japan. For Ukraine last year marked a breakthrough in implementation of Japanese energy saving technologies within the framework of "green investment scheme" under the Kyoto protocol. Rising gas prices and tensions with the major gas supplier, which occurred in the past, made the Ukrainian government reconsider its energy policy and start to promote usage of alternative sources of energy and energy saving equipments in communal services, electric power production, metallurgy, chemical industry and other sectors. Successful implementation of such advanced technologies is equal to the economic security and growth. I

believe Japan could play an important role in modernizing and “greening” economies of BSEC countries on a mutually beneficial basis providing investments and technology transfers.

3. Next, environmental issue is one of the most serious threats to the economic development of the Black Sea Area. It includes preservation and management of natural resources in the Black Sea and Danube River as well addressing the problem of global warming on the regional basis. To find effective solution to ecological problems BSEC states need to join their efforts in coordinating national environmental strategies and ecological legislation. Key issues for environmental protection include industrial pollution, pollution of the Black Sea and rivers, waste management especially radioactive waste to name a few. In the case of Ukraine, we are taking different measures to eliminate the consequences of Chernobyl nuclear accident. We appreciate the assistance from Japan in this area and hope that Japan, as the most environmentally friendly nation, will help tackle ecological problems in the Black Sea region.

4. Formation of BSEC has happened on the intersection of trade and economic systems, which previously had different economic development concepts. From the very beginning of BSEC these circumstances conditioned relatively low trade turnover between the countries with different economic systems, in spite of the diversity of industrial capacity, service sectors and natural resources.

According to UNDP data, intra-regional trade is on average small, not exceeding 20% of the total. Currently only Bulgaria, Greece, Georgia, Rumania, Turkey and Ukraine are the members of WTO and others are still negotiating their accession to this organization. As for Ukraine, the major trade partners in the region are only Russia and Turkey.

To increase intraregional trade, the ultimate goal of the BSEC initiative is establishment of the “free trade zone”, however, it is more a long-term perspective than a short-term goal. The main issue at stake is trade facilitation using various mechanisms such as reduction of non-tariffs barriers, implementation of joint economic projects, and participation in regional trade exhibition etc. Last year in October Ukraine hosted a Workshop on Customs Data Exchange as a step to trade facilitation by reducing waiting time at the borders and combating fraud and smuggling. I believe that real-time exchange of information among the customs administrations would help both the customs and business to speed up the process of clearing of imported and exported goods.

At the current economic situation, when the financial crisis badly hit the regional economy, it is important that member-countries do not impose any additional barriers to trade to protect their economies, but follow the international principles of free trade. Accessible and open market of the BCES countries would make the region more attractive to domestic and foreign investors which will

foster private sector development. Furthermore, open markets will promote trade with the countries outside the Black Sea Area, especially with EU, which is the main importer and investor for the BSEC countries.

Geographical proximity to EU and participation of three EU member states in BSEC, on the one hand, makes EU a main economic partner for the region, but on the other hand, puts in a disadvantage position non-EU countries. The challenge they have to face is the adaptation of their regulatory standards and product quality to the EU rules.

To develop joint economic projects and promote investment and trade in the region and with other countries, BSEC Business Council is very instrumental. In many other regional organizations close business ties and cross-countries business network were one of the main impetuses for further institutional cooperation. In this way, I see the role of the BSEC Business Council as a collective mechanism for facilitation of partnership between government and business as well as between regional private companies.

Some might argue that new projects are difficult to implement during the financial crisis. But I would not be so negative. We should think of this crisis as an opportunity to rethink the strategy to business cooperation creating opportunities for new projects in infrastructure, agriculture, energy-saving, tourism and other areas with the participation of private and public sectors as well as foreign investors. A really important instrument for practical implementation and financing of projects is BSEC Project Development Fund. One of the examples of the two regional projects can be the Black Sea Ring Highway and the Motorways of the Sea. Japanese companies are very much welcomed to the Black Sea Area not only on a country-to-country basis but also on a regional basis.

I am also optimistic about the activity of the Black Sea Trade and Investment Promotion Program (BSTIP), which is a joint project between BSEC Project Development Fund and the UNDP aimed at promoting intraregional trade and investment.

To conclude, in spite of the economic diversity and different levels of integration to the global economic system, BSEC countries have common problems which they have to face. Global crisis, climate change, low level of intraregional trade and investments and energy security are the main challenges which call for joint efforts and coordinated policy among member-states. At the same time, Japan as one of the most advanced economies with vast economic and financial capacities can make a significant contribution to the development of the region through its own initiatives as well as through international organizations on a mutually beneficial basis.

I hope that the Government of the Prime-Minister Yukio Hatoyama will also see a lot of opportunities and strengthen the Japanese presence in the Black Sea Area.

Thank you for your attention.