Ukraine as extended production facility for global car and components manufacturers

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Global factors that determine the low cost production

Ukraine can integrate into the global value chains as the “second China” in low cost production.

Global production using high-tech developments and the world's leading “know-how” under Industry 4.0 approach and participation in global value chains.
Global automotive trends: Ukrainian choices

Alternative 1
Global production using the resource base and low-skilled labor
Added value up to 14%

Alternative 2
Ukraine – the second China in low cost production
Global production using high-tech developments and the world's leading “know-how” under Industry 4.0 approach
Added value >50%

* World Bank data 2013
Exemplary case

74 factories around the world
37 extended production facilities built under low cost production principle
Ukraine as low cost production site

Developers of automotive technologies (OEMs)
- Germany
- USA
- Japan
- China
- France
- South Korea

Extended production facilities
- Slovakia
- Turkey
- China
- Czech Republic
- Romania
- Ukraine?
Competitive advantages of Ukraine Logistics

- **4** international transport corridors
- **18** seaports (including Crimea)
- **11** river ports
- **22 k.** kilometers of railways
- **170 k.** kilometers of road
Competitive advantages of Ukraine

Costs

Low cost of labor and resources compared to most European countries

Average monthly salary in industry (EUR)

Natural gas (EUR/KWh)

Electricity (EUR/KWh)

UkraineInvest data
Competitive advantages of Ukraine
Taxation level

Low rates of main taxes compared to most European countries

**Income tax rates (%)**

- Germany: 0-45
- Spain: 19-45
- Portugal: 14.5-48
- Slovakia: 19-25
- Czech Republic: 15
- Russia: 13
- Ukraine: 18

**VAT rates (%)**

- Germany: 19
- Spain: 21
- Portugal: 23
- Slovakia: 20
- Czech Republic: 21
- Russia: 18
- Ukraine: 20

**Corporate tax rates (%)**

- Germany: 30
- Spain: 25
- Portugal: 30
- Slovakia: 21
- Czech Republic: 19
- Russia: 20
- Ukraine: 18

UkraineInvest data
Competitive advantages of Ukraine
Production costs

Estimated costs per 1 fully built vehicle

- **Germany**: 2,500 EUR [Labour: 2,000 EUR, Overhead: 300 EUR, Energy: 200 EUR]
- **Czech Republic**: 1,200 EUR [Labour: 1,000 EUR, Overhead: 200 EUR]
- **Slovakia**: 1,000 EUR [Labour: 900 EUR, Overhead: 100 EUR]
- **Turkey**: 1,000 EUR [Labour: 800 EUR, Overhead: 200 EUR]
- **Ukraine**: 500 EUR [Labour: 400 EUR, Overhead: 100 EUR]

*4x lower than in Germany*

Competitive advantages of Ukraine

Export opportunity to the EU

EU

Tolling: Duty free components and technologies import

DCFTA: Duty free import from EU
from 2019

Ukraine

Tolling: Fully built up vehicles (assembly, production of components):
✓ Duty Free (tolling/ inward processing)
✓ Tax Free
✓ Free from Quotas and Licensing

DCFTA: Duty free export to EU
from 2022
### Incentives for Electric Vehicles

**1st step** Taxation level for electric vehicles in Ukraine in 2018

<table>
<thead>
<tr>
<th><strong>0%</strong></th>
<th>Import duty since 2016 after 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>0%</strong></td>
<td>VAT since 2018 after 20%</td>
</tr>
<tr>
<td><strong>0 EUR</strong></td>
<td>Excise duty since 2018 after 190 EUR</td>
</tr>
</tbody>
</table>

**More than 20% decrease of production and import cost for electric vehicles due to Ukrainian government incentives.**

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**EUROCAR**
**Incentives for Electric Vehicles**

**2nd step** Substantial changes expected within 15-years Electric Vehicles Strategy

<table>
<thead>
<tr>
<th>Incentive</th>
<th>Duration</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT and import duty up until 2028</td>
<td>0%</td>
<td>on import of spare parts for electric vehicles production</td>
</tr>
<tr>
<td>Excise duty up until 2028</td>
<td>0%</td>
<td>on import of bodies (including cabs) for electric vehicles production</td>
</tr>
<tr>
<td>Pension tax up until 2028</td>
<td>0%</td>
<td>on purchase of electric vehicles</td>
</tr>
<tr>
<td>Profit tax up until 2032</td>
<td>0%</td>
<td>for extractors of lithium, manufacturers of batteries and electric vehicles</td>
</tr>
</tbody>
</table>

Relevant bills **№8159** and **№8160** are awaiting consideration in the Parliament.
**Ukrainian passenger car market**

**Key figures**

- **2** Ukrainian passenger car manufacturer companies (2016 – 2017)

- **4%** average level of production capacity utilization (2017)

- **9,1 mio** passenger car park (2017)

Ukrainian passenger cars manufacturing capacities amount to **400 k units per year.**

1. Eurocar PrJSC
   SKD (Skoda)

2. Bogdan Corporation
   CKD (Lada, Bogdan, JAC)

3. ZAZ PJSC
   CKD, SKD (ZAZ)
Ukrainian car industry

Potential

6 additional working places in supporting industries cumulatively are created by one working place in car production

202 cars per thousand people – the number of cars per capita

19.6 years is the average age of car park

3 place currently occupies the import of foreign cars in development of negative trade balance of Ukraine
4% of the EU’s GDP is the share of the automotive sector

5,7% of the EU employed population is employed in the automotive sector

### Share in GDP (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>14%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>12%</td>
</tr>
<tr>
<td>Hungary</td>
<td>10%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>7%</td>
</tr>
<tr>
<td>Poland</td>
<td>4%</td>
</tr>
<tr>
<td>Russia</td>
<td>0,5%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>0,4%</td>
</tr>
</tbody>
</table>

### Direct automotive manufacturing employment (k employers)

<table>
<thead>
<tr>
<th>Country</th>
<th>Employment (k employers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>850,9</td>
</tr>
<tr>
<td>Russia</td>
<td>470</td>
</tr>
<tr>
<td>Poland</td>
<td>178,3</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>159,7</td>
</tr>
<tr>
<td>Hungary</td>
<td>88,5</td>
</tr>
<tr>
<td>Slovakia</td>
<td>66,4</td>
</tr>
<tr>
<td>Ukraine</td>
<td>7,8</td>
</tr>
</tbody>
</table>

www.eurocar.com.ua
Automotive cluster in the Western Ukraine

Well-known international producers are already here,

of the wiring harness for the European automotive industry is produced in Ukraine

75%

that creates the potential for localization of car production
Industrial parks - opportunity for high value added production location

Solomonovo Industrial Park – high-tech development and production center, in particular for automotive industry.

Existing preferences:

1. Already existing facilities and infrastructure
2. Exemption from a “regional development participation payment”

Additional Taxation and Customs preferences upcoming
Expansion of global companies to Ukraine

- Yazaki-Ukraine
- Groclin-Karpaty

- W.E.T. Automotive Ukraine
- Kromberg & Schubert Ukraine, Sumitomo Electric Bordnetze
- Tyco Electronics, Bader
- Flextronics
- Groclin

- 2002: LEONI, Forshner, ODW Elektrik, Bosch
- 2003: Jabil
- 2004: Kromberg & Schubert Ukraine, Sumitomo Electric Bordnetze
- 2005: W.E.T. Automotive Ukraine
- 2006: Kostal Delphi
- 2007: SEWS Ukraine
- 2008: Bader, SE Bordnetze, Kromberg & Schubert, Fujikura (2 plants), Prettl Group
- 2012: LEONI, Bader-Aunde, Delphi, Fujikura

- >45k employees
- >400 mio EUR investment
- 35 plants
Skilled labor force

Employees in Ukrainian automotive production

- 7.8k. Ukrainians are involved in vehicle manufacturing
- 33k. Ukrainians are involved in electric and electronic equipment for vehicles manufacturing

Structure of unemployment by education

- 80% of unemployed Ukrainians have higher education & vocational and technical education

EUROCAR is officially supporting the employment of Ukrainians at VW Group plants and engaged in training and skills matching of personnel for VW Group

State Statistics Service of Ukraine, State Employment Service of Ukraine data
Opportunities for Ukraine

Using

1. Efficient supply chain integration due to convenient logistics

2. Skilled labor force and lower (on average) labor costs compared to European countries

3. Government promotion of electric vehicles and presence in Ukraine of lithium deposits used in the manufacture of batteries for electric vehicles

Ukraine can integrate into global value chain, turning into cost competitive extended production site for global vehicle manufacturers, including those producing electric vehicles.
Thank you for attention.

Eurocar plant video:

Contacts of Eurocar Group:

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