

Reconstruction of Ukraine: the logistics sector

1. Current status
2. Government support for logistics reconstruction
3. Acquisition of a Ukrainian logistics company
4. Agreements with Ukrainian logistics companies
5. International assistance in the reconstruction of Ukraine

B

1. Current status

In April 2024, Ukraine exported a record-breaking 13 million metric tons of products, surpassing the figures from February 2022. The increase in exports was particularly influenced by the opening of an alternative maritime corridor in the Black Sea last summer, enabling Ukraine to export, among other goods, grains and metals.

Despite the loss of over 400,000 square meters of high-quality storage space, Kyiv region remains the country's key logistics centre, as companies from conflict-affected regions relocate their distribution centres closer to the capital.

From the western regions of Ukraine, Lviv and Volyn emerge as the most promising. They possess optimal road and rail connections and share a border with the EU. Currently, approximately 60% of Ukrainian exports pass through these regions to the EU.

The growing demand for logistics hubs, multimodal terminals, oil depots, and grain silos presents numerous investment opportunities while demanding swift decisions from investors looking to enter this market. The primary investment instruments currently are the acquisition of properties strategically located to potentially serve the logistics routes from Ukraine to the EU.

With the revival of grain exports via the Black Sea, prospects for investment in the renovation of grain storage facilities in Ukrainian seaports

and the supporting infrastructure are increasing. Thus far, more than 200 port infrastructure facilities in Ukraine have been fully or partially destroyed by Russian attacks.

2. Government support for reconstruction of the logistics sector

Considering the current situation, investors have been offered novel forms of government assistance for large-scale investment projects since September 2023, creating new investment opportunities. To qualify for support by the Ukrainian state, the investment volume during the term of a logistics project (up to 5 years) must exceed EUR 12 million.

Related article: State support for large investors in Ukraine (updated)

Ukraine supports investors, among others, through:

- exemption from corporate tax for 5 years as well as the import VAT and customs duties on the import of new equipment;
- the construction of engineering and transportation infrastructure objects necessary for the investment project (roads, communication lines, heat, gas, water, and power supply facilities, etc.) or compensation of incurred costs;
- the compensation of expenses required to connect and integrate with engineering and transportation networks.

Note: state support under a special investment agreement shall not exceed 30% of the planned amount of investments.

3. Acquisition of a Ukrainian Logistics Company

Acquiring a logistics company is currently the most efficient way for foreign investors to enter into business in Ukraine. This is primarily because transportation activities in Ukraine require licensing, and the construction of warehouses is not only associated with the technological duration of processes but also, among other things, with issues of land acquisition, formalisation of permits related to warehouse operation, preparing documents required for compliance with occupational safety regulations. etc.

The process of acquiring a Ukrainian logistics company follows a typical M&A structure (Share Deal). However, it is important to consider regional peculiarities, otherwise asset acquisition in Ukraine can become a protracted, costly, and relatively risky affair.

Legal due diligence is required. In certain cases where the buyer has reasons to believe that there are particular risks or that certain parameters must be met (reputation of the target company's owners, environmental parameters of production, etc.), corresponding due diligence examinations are additionally carried out.

An equally important step is the actual execution of the transaction. This phase includes approval of the document package required for the transaction (approvals, including those from the Antimonopoly Committee of Ukraine, corporate protocols, notifications to creditors, documents confirming the parties' powers, opening bank accounts for the transaction settlement, etc.) and the signing of the purchase agreement and documents required for the implementation, settlement, and, above all, registration of changes in the Ukrainian state register.

It should be noted that legal control over the acquired Ukrainian company is not transferred to the buyer with the signing of the agreements and associated payments but rather with the registration of the corresponding changes in the Ukrainian state register.

The transaction completion does not conclude the acquisition process. Actual control over the company must be established. This typically includes changing management, verifying the management powers, updating contacts with contracting parties, local authorities, etc.

4. Agreements with Ukrainian logistics companies

Collaboration with Ukrainian logistics companies can be formalised through a wide range of contractual relationships. These include joint venture agreements with or without the establishment of a legal entity, contractor, or service agreements.

An example of such cooperation is express shipping. Express delivery has developed very well in Ukraine and continues to grow. With the growth of e-commerce and the increase in online orders, demand for express delivery in Ukraine is also rising. Over two dozen express service providers are active here, including major ones like Nova Poshta, Ukrposhta, Meest Express, DHL, UPS, and others.

5. International assistance in the reconstruction of Ukraine

International support for the modernisation and reconstruction of the country focuses on two main areas: encouraging investors to invest in Ukrainian projects and providing direct support through international donor organizations.

Multilateral development banks such as the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), and the World Bank Group have been particularly active in Ukraine, especially in the last 2 years.

An example of direct international assistance is the USAID project for economic support to Ukraine, which provides grants for the development of Ukrainian logistics and exports. The project focuses on strengthening the logistics and export capacities of the Ukrainian agricultural sector, improving processes and procedures that enhance the ability to manage export cargoes and integrate with the EU at border crossings.

www.DLF.ua

The German federal government also has a guarantee mechanism to mitigate risks for private investors, securing German exports and investments in Ukraine with guarantees and providing capital to investors under attractive conditions (e.g., Federal Investment Guarantees, develoPPP).