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EXCLUSIVE ISRAEL UKRAINE ECONOMY

Interview with Israeli-Ukraine Chamber of Commerce Chairman Evgeny Shulgin

Economic and cultural links between Israel and Ukraine are significant. Both nations are united by the common threat of the Tehran/Moscow axis, but their connections are most apparent in business.

by Kyiv Post | Feb. 1, 2024, 1:17 pm

This handout photograph taken and released by the Ukrainian Presidential Press Service shows President of Ukraine Volodymyr Zelensky (L) shaking hands with Prime Minister of Israel Benjamin Netanyahu (R) during a meeting on the sidelines of the 78th session of the UN General Assembly in New York, on September 19, 2023. (Photo by Handout / UKRAINIAN PRESIDENTIAL PRESS SERVICE / AFP)

From the Editors: Kyiv Post spoke with Evgeny Shulgin, Chairman of the Board at the Chamber of Commerce and Industry Israel-Ukraine, to better understand the current business links between Israel and Ukraine and how they've been affected by recent events.

How would you describe business links between Ukraine and Israel?

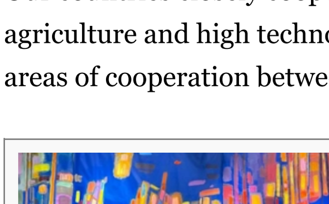
To understand today's business ties between Ukraine and Israel, it is necessary to delve into their history. Without this historical context, it is difficult to grasp the true state of affairs and relations between the two nations.

So, what do we see? Our peoples have long been connected by a shared culture, social interactions, and business activities. These connections have matured over time and have become fruitful, extending across various levels. Interestingly, these ties are not always reflected solely in numerical values.

Numbers can certainly inform us about direct trade transactions, but they do not capture the full extent of the interaction. This is the aspect that unites our countries at the level of trust and personal relationships.

More than half a million repatriates from Ukraine reside in Israel, and in the last year and a half, several tens of thousands more Ukrainian citizens have found their home in Israel. This situation creates a truly special bond between our peoples.

Our countries closely cooperate in various sectors, from the chemical industry and metallurgy to agriculture and high technology. The high-tech area plays a special role, being one of the leading areas of cooperation between Israel and Ukraine.



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How healthy is trade between Israel and Ukraine?

On Jan.1, 2021, the history of Ukrainian-Israeli economic relations received a new important chapter. The Free Trade Agreement between Ukraine and Israel has entered into force. The purpose of this agreement is clear: we want to increase our interaction, reduce barriers to trade and simplify the movement of goods.

As a result, this should lead to an increase in the growth of our exchange of goods, as well as complete the creation of a contractual basis for the implementation of the Pan-Euro-Med convention in the Israel-Ukraine-EU triangle.

What does this mean for manufacturers? This means that an Israeli manufacturer that exports its products to the EU can now import materials, components and raw materials from Ukraine. And these Ukrainian components become, in essence, Israeli when it comes to European Union customs rules.

The same is true in the opposite direction: a Ukrainian manufacturer can confidently export its products to the EU using Israeli materials. And in such cases, the customs duty between all participants may be 0%. This, in fact, is an opportunity for the Ukrainian manufacturer to have duty-free access to many markets in Europe and the Middle East.

The dense aviation ties between Israel and Ukraine before the war (we're talking about 4 to 6 flights a day from Tel Aviv to Kyiv alone) serve as examples of how sociocultural and human ties support and strengthen business relations between our countries. This is real interaction between our communities and our peoples.

Ukraine has always had a trade surplus with Israel, since exports of goods to Israel have always exceeded imports from Israel. And now we are only talking about goods. In the service sector, the situation is completely impressive – more than 90 percent of the balance is in favor of Ukraine.

A large number of IT services have been and are being ordered from Ukraine. It is impossible not to mention that the coronavirus played a significant role in this regard, because during the pandemic everyone learned to work remotely and the requirement to be in the office was relaxed. Therefore, the beginning of the war in Ukraine was easier to overcome in this service sector than in others, where the physical presence of employees and teams was necessary.

Both Israel and Ukraine have large IT sectors; how close is cooperation in this industry?

Today, Ukrainian-Israeli cooperation in the IT sector remains at a good level. It is clear that during the outbreak of the war in Ukraine, some companies decided not to expand their staff in Ukraine. But this all happened in 2022. Now we can state that close cooperation continues.

I would like to draw your attention to the fact that a significant part of Israeli projects was carried out not directly by opening their own subsidiaries, but as is customary in the industry, went through Ukrainian outsourcing companies.

Before the start of the war in Ukraine, it was estimated that up to 45 thousand Ukrainian developers were working on Israeli projects. We are in constant contact with many IT companies.

Over the past year and a half, there are companies that have expanded their staff in Ukraine. There are companies that have reduced their staff or closed offices. But this is a living mechanism that is developing. Yes, not as active as in 2021 (we see this in the labor market), but there is development.

It should be noted that the decrease in the number of hires is observed not only in Israeli projects, but throughout the world. This is a global trend but 2023 is a difficult year for the global economy, which has affected service companies and the investment business.

Ukrainian-Israeli relations remain productive. Business ties have not been interrupted. Personal relationships are quite strong. And business, first of all, starts with people.

Could you give an overview of the Israeli/Ukrainian companies cooperating in the IT sector?

There are hundreds of such companies. As a Chamber of Commerce and Industry, we interact with many, although not all of them. Some prefer to remain in the shadows, especially stock exchange giants that do not disclose the details of their operations in specific countries.

On the other hand, there are well-known Israeli companies that actively engage in public relations and have employees in Ukraine. Some of these companies include Payoneer, Wix, MyHeritage, Playtika, Similarweb, Playtech, Moon Active, and Plarium, among others. This, of course, is not an exhaustive list.

In addition to large corporations, there are also a huge number of startups and small firms. And there are also hundreds of Israeli companies that interact with the Ukrainian IT sector on a project-by-project basis, i.e. ordering projects as needed.

Most companies remained in Ukraine after February 2022. Yes, there are fewer new projects coming in. This is due to the search for alternative solutions and diversification of risks. In Israel, they are also starting to consider Eastern Europe and Portugal. They started talking about India again. The market requires constant updates and the search for new opportunities.

Which cities in Ukraine and Israel enjoy close economic and business links, especially in the IT sector?

When it comes to economic interaction, for Israel, it is not so important which cities interact. We usually operate by regions. In Israel, the main high-tech centers are located in the Central Region, Jerusalem, Haifa and Beer Sheva.

At the state level, Israeli cities have sister cities in Ukraine, such as Bat Yam and Vinnytsia, Rishon LeZion and Kharkiv, Ashdod and Zaporizhzhia, Haifa and Odesa. These pairs of cities cooperate, sign memorandums, and discuss joint projects.

Thanks to decentralization in Ukraine, city leaders have become more interested in business development and are actively working to attract investors and new business opportunities.

Our Chamber also cooperates with Ukrainian cities, helping their administrations and business communities establish connections with Israeli partners.

What sectors of the IT industry are Israeli/Ukrainian IT companies working in?

As for sectors, it is easier to list those in which Ukraine and Israel do not cooperate. Israel does not outsource such sectors as those related to the military industry and cybersecurity beyond its borders. This is a government position. Almost all other IT sectors have interaction in one way or another.

How has the Oct. 7 massacre committed by Hamas and the ongoing conflict in Gaza affected Israeli and Ukrainian relations?

Israel, unfortunately, is accustomed to crises (by the way, this is why Israel was not afraid of the crisis in Ukraine) and is immune to difficult situations. This immunity provides room for maneuver.

Many companies are prepared for crises, and management and employees have served and have already worked in combat conditions. Each new crisis brings a surge of new innovative ideas, projects, technologies in the fields of cybersecurity, mechanical engineering, marketing, media, military, food industry, medicine and others.

True innovation happens in critical situations. Unfortunately, this is the engine of progress. Therefore, Israel will move on.

We have always seen an increase in investment in Israel, as well as an increase in GDP after all the crisis periods. While Israel faces short-term challenges related to the military service of its citizens, this, for example, could also provide an opportunity for Ukraine to strengthen its engagement with Israel and replace manpower losses. For Israel, as a relatively small country in terms of population, the issue of staffing remains important and requires attention.

The events of Oct. 7 became a great tragedy for both Israel and Ukraine, given that Ukrainian citizens also died as a result of the attack by the Hamas terrorist organization.

Today, our countries agree on one more issue - the inadequacy of the actions of the Iranian government and the threat posed by it not only to our states, but to the entire world as a whole.

How have business links between the two countries been affected?

First of all, people suffered, as I said earlier, including Ukrainian citizens, and this is the most important thing. Of course, during the events that took place, plans for business meetings were disrupted. We know of cases where foreign partners came to Israel to plan deals, but negotiations were interrupted or did not take place.

Also, for example, previously we, as the Chamber of Commerce and Industry, organized official delegations of representatives of municipalities of Ukraine to the plant for the production of "safe rooms" RB DOORS, since the topic of construction of protected spaces and bomb shelters has become especially relevant for Ukraine. So, this plant is located in the city of Ashkelon, which is now under constant shelling. And, of course, other businesses and employees in the region are also facing these challenges.

Ukraine continues to export goods to Israel, and so far, there have been no significant changes in financial flows (if compared with a month ago, and not with Ukrainian pre-war). In Israel, the banking system functions without delays and as usual.

The only difficulties arise from the fact that many people in Israel joined the army. This temporarily affected the efficiency of business processes. However, now the situation is quite stable.

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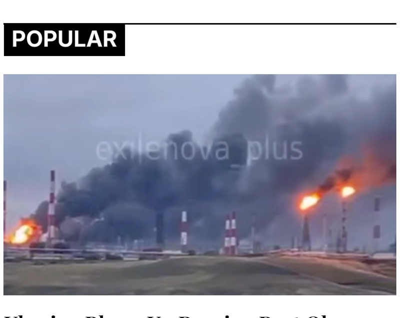

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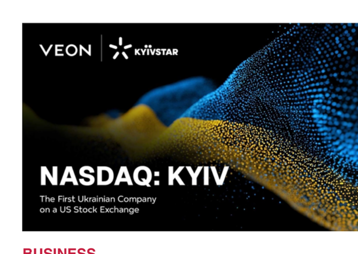

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