



Strengthening Ties with the EU

Ukrainian Prime Minister Yulia Tymoshenko presented the key provisions of her cabinet's programme to EU officials on 28-29 January. During what was her first visit to Brussels since securing her premiership, Ms Tymoshenko met with leading figures including the European Commission President José Manuel Barroso and the President of the European Parliament Hans-Gert Pottering. The key points discussed included:

- The Tymoshenko Transparency Initiative, a new comprehensive initiative to improve Ukraine's investment climate by introducing European standards of business and government transparency;
- The launch of negotiations between Ukraine and the EU to advance towards a comprehensive Free Trade Agreement once Ukraine becomes a WTO member;
- The advancement of a visa liberalisation dialogue with the EU and a future visa-free travel regime between Ukraine and the EU;
- The deepening cooperation between Ukraine and the EU in the sphere of energy, including the diversification of energy supply, energy security, and upgrading Ukraine's transit capacity.



▲ Entente cordiale: Prime Minister Yulia Tymoshenko visits Brussels.

Mr Barroso stressed the need for political stability based upon democracy and the rule of law and welcomed the Tymoshenko-government's reform programme, which brings Ukraine closer to the 27-nation bloc.

"We are confident that political stability can become a reality in the Ukraine," Mr Barroso said, before adding, "Ukraine is getting closer and closer to the European Union."

Mr Barroso mentioned that talks on establishing the Free Trade Agreement were likely to take place in a matter of weeks now that Ukraine is about to join

the WTO. The latter is scheduled to take place on 7 February.

The EU remains Ukraine's largest market and trading partner with some €26.6 billion (\$39.3 billion) worth of bilateral trade in 2006.

Ms Tymoshenko said that entry into the WTO was a way of improving her country's integration into the international community but underlined that it should not be used to put pressure on any country. The new administration is keen to strengthen relations with Russia based upon mutual cooperation and respect.



Speaking to the head of the European parliament, Ms Tymoshenko said, "I would like to thank European parliamentarians for supporting the reform process in Ukraine. The European Parliament has always supported democratic changes in Ukraine and I'm confident that we'll have such support in future."

Investment Climate Buoyant

Black Monday which saw the biggest sell-off of shares since 9/11 had minimal impact in Ukraine.

Ukraine's share index shed a meagre 2.5 percent compared to the 5.5 percent drop on the UK FTSE 100 index, the 6.6 percent slump on France's CAC-40 and the sobering 7.2 percent drop on Germany's DAX 30.

Peter Keller an analyst with Millennium Capital suggests that one of the factors cushioning the Ukrainian market is that it is dominated by professional investors who are less likely to panic and that there are "not many alternatives to the still very attractive Ukrainian market."

Ukraine is viewed as a strong emerging market with plenty of upside. According to the latest figures from the State Statistics Committee, the GDP in 2007 saw a year-on-year growth rate of 7.3 percent. The Cabinet of Ministers has forecast 6.8 percent in 2008. However, according to analysts, this may be revised given Ukraine's strong appeal to foreign direct investors and fixed portfolio investors.

The recently announced Tymoshenko Transparency Initiative, which was last week unveiled to 250 investors, underlines the strategic direction of the government to improve further the investment climate in Ukraine. The initiative delivers on many of the provisions contained in the "Contract with Investors," which was launched during the parliamentary election campaign, and contains reforms across various sectors. (see "Message to Investors", page 4).

NATO Membership Decided by Referendum

NATO membership is an emotive topic for many Ukrainians. Last week the government made its position abundantly clear on the issue. That is, there will be no membership of NATO unless decided by the people by way of a national referendum.

The emotions of opposition deputies boiled over after a formal request was put in writing to NATO Secretary-General Jaap de Hoop Scheffer to join the NATO Membership Action Plan (MAP). The request, signed by President Viktor Yushchenko, Prime Minister Yulia Tymoshenko and Parliamentary Speaker Arseniy Yatsenyuk, was delivered to NATO headquarters in Brussels by Foreign Minister Volodymyr Ohryzko.

News of the letter sparked a wave of near-hysterical protest from some Party of Regions deputies who blocked the Speaker's podium in protest.

"A final decision on accession to NATO will be taken only after consultations with the Ukrainian people."



◀ Hryhoriy Nemyria. Vice-Prime Minister for European Integration



Olena Lukash of the Party of Regions said in a statement, "The powers-that-be ignored the people's will and made a decision on an issue that should be made only by the Ukrainian people following a public discussion."

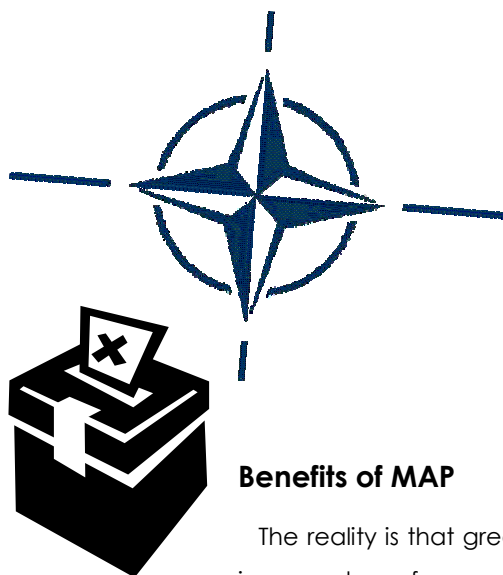
But the protesting deputies have missed the point. Seeking approval to join the MAP is not tantamount to membership. The democratic forces are only doing what they planned to do all along; that is to support the policy direction of NATO membership. Ultimately, the decision on whether to join will be put before the people.

"Joining the NATO Membership Action Plan doesn't mean membership," emphasised Vice-Prime Minister Hryhoriy Nemyria at a press conference, "a final decision on accession to NATO will be taken only after consultations with the Ukrainian people."

Sergei Lavrov, Russia's Foreign Minister was deeply critical of the expansion of NATO and said it was "a policy inherited from the Cold War." He expressed displeasure over the request to join MAP saying "that it is a very serious topic and future cooperation between Russia and Ukraine depends to a large extent on how it develops."

Currently, about half of Ukraine's population is against joining NATO. A recent poll conducted by the by the Razumkov Center found that 58.9 percent of those polled opposed NATO membership, with only 21 percent favouring it. The balance was undecided.

Mr Nemyria conceded the need for a public information campaign. "We have long-maintained that a public information campaign is needed before a referendum. The people need to be fully aware of the role of NATO and the pros and cons of membership. At the moment most people have an outdated perception of NATO or know little about it."



Benefits of MAP

The reality is that greater Euro-Atlantic integration stands to benefit Ukraine in a number of ways. For a start, it forces out-dated Ukrainian institutions to get onto the same page as their western counterparts.

The prospect of NATO membership has caused Ukraine's military to overhaul itself. Participation in major exercises has seen huge improvements, with the government wishing to complete the military's metamorphosis to a smaller yet better equipped professional force.

The armed forces have already shown their worth by participating in UN, NATO and OSCE peacekeeping missions. According to Serhiy Dzherdzh of the Ukraine-NATO Civic League, "Ukraine is a top 10 world peacekeeping contributor." Despite this, it is doubtful it receives the political and economic return proportionate to its commitment.



The non-military returns should not be underestimated. Ukraine's integration into Euro-Atlantic structures is associated with a whole raft of reforms – judicial, economic, human rights, social and environmental – aimed at establishing a more open and democratic society.

"Is it any coincidence that the countries most recently admitted to the EU were NATO members?" observed Mr Nemyria, "that doesn't mean the two are synonymous or that there exists some kind of favouritism, but rather that these countries undertook the necessary reforms for NATO membership that put in place the democratic values and institutions shared by EU states."

Mr Nemyria added, "We stress that our neighbours have nothing to fear from either our joining MAP or NATO. Indeed, our joining would provide a strong voice to protect regional interests but, as we have said time and time again, membership of NATO will not be a decision made by politicians but by the people."

Message to Investors



The following prepared comments by Prime Minister Yulia Tymoshenko were delivered at a meeting with investors on 24 January 2008. Also in attendance were Vice-Prime Minister Hryhoriy Nemyria, Minister of Finance Viktor Pynzenyk, and Minister of Economy Bohdan Danylyshyn.

Thank you for being here. I am beginning my foreign travel schedule next week to Brussels to further our European Integration efforts, but in reviewing my governmental planning efforts over the last 30 days, I felt it important to take the time to meet with you first, hear from you, and communicate to you what my government has accomplished and, more importantly, what we are going to accomplish in very short order.

In sum, I wanted to give a push, if you will, to our "Contract with Investors," which was launched during the election campaign. This represented a successful effort of collaboration and communication with members of the business community. Many of you present here today had a hand in that and I thank you. We now meet again to continue that effort, to lift this critical issue back to the top of the priority list of a government that is very much focused on reform.

Since taking office, we've accomplished quite a bit, especially in light of the timing between the election in September and our ability to convene the government in December. What have we been doing? I'll mention several things here today that are quite material to this audience: the budget for 2008, the Programme for the Government that was recently published and, of course, our historic agreement with the EU to permit WTO accession. We will then speak to specific issues related to ways we intend to improve the investment climate.

By law, due to the timing of the elections, we had less than two weeks to pass a budget and less than 30 days to establish a Government Programme. We accomplished both, and while the budget is imperfect, all constituencies have agreed to make amendments to it at the end of the



first quarter of this year, around the end of March, once we've had time to carefully review the situation and hear from all stakeholders. While we plan to make significant changes to the budget, we believed it imperative to comply with existing mandates; our efforts to reform cannot overrun our commitment to the rule of law and transparency.

On WTO accession, my government acted swiftly to overcome the single most important obstacle to our membership in 2008. As you by now know, Vice-Prime Minister Nemyria travelled to London to meet with EU Trade Commissioner Mandelson and resolve, to both parties' satisfaction, the dispute that prevented Ukraine from enjoying the unique trade opportunities presented by WTO membership. That is swift and decisive action, action that is unique to this government.

On all measures, we've followed the law and adopted our plans in the most transparent manner; too quickly for some, too slow for others, some say more, others say less; and as with any government effort, too few are completely happy with the outcome, and that is the nature of compromise, which is the core of any government implementing democratic rule.

Transparency will be the theme of this meeting today and of my government going forward. Whether you agree with any specific policy or not, the key point is the following – **in less than 30 days my government identified, clarified and then executed on key issues: absolute transparency, no disputes on process or legitimacy.** Our "Transparency Initiative", referred to by some as the "Tymoshenko Transparency Initiative" ("TTI"), is going to be our approach on the major hurdles impacting our investment climate – great challenges indeed. Some imply cynically that these challenges cannot be overcome; I disagree. Everything we do is going to be in accordance with this philosophy, open dialogue with stakeholders, as we are having here today. This is our message: how something is done is critical to the legitimacy of its outcome.

In our effort to integrate more fully with the European political and business environment, we have been working closely with key advisors, including the European Business Association (EBA). In consultation with them and others, we rolled out the "Contract with Investors" during the campaign, a significant success, we believe. Feedback from you has been encouraging on this count, and we appreciate your communication with our new government.

Today we are taking the next step in improving our investment climate, in this case increasing transparency in the business environment.

It must be said that you take a certain amount of risk to invest in Ukraine; you must also take a certain amount of risk to change the way Ukraine is governed. We are in this together – if I am not successful in improving this investment climate, I cannot be successful as Prime Minister. It is my responsibility to this country.

The theme of transparency is critical to how we will govern; it encompasses everything from combating corruption to the drafting of new investment laws to how we deal with our trading partners. In addition to the theme, which you will hear repeatedly from me over the coming months, we have some specific steps to execute on today. I would ask you to conduct some due diligence after this meeting; identify the numerous points we are addressing today in the "Contract with Investors." There are many. First, as an example of "leading a change management programme to develop the foundation of a modern government", we are joining today with the investment community on a new approach, one based on communication and transparency. We are announcing the following:



- The adoption as a baseline of the EBA “Barriers to Investment” as a core set of principles against which my government shall work and by which we will agree to be measured – accountability is critical.
- The adoption as a baseline of the specific problems identified in the EBA in its “Action Plan” spreadsheet.
 - Both of these documents are available at www.eba.com, and I have asked that they be published on the Cabinet of Ministers website as well.
- The creation of an electronic register by the government for commercial disputes that will be available to the public and media so that more light is shed on problems arising from the natural intersection of commerce and government.
 - All corporations and individual entrepreneurs will have equal and direct access to the Prime Minister’s Office via this register. It will reduce the need for companies to believe they must hire lobbyists to get government action to improve the investment climate – those with money and privilege should not be the only ones who obtain governmental results. If that were the case, where would that leave SME’s, which we believe are critical in growing this economy?
 - This register will be reviewed for problems with regulation, legislation or decrees, specific items for governmental action. It is not for private party commercial disputes. The government will not take actions on issues for the courts.

And who will be responsible for resolution of these problems? Who will be accountable? Today I announce the initiative to create a small body of foreign and domestic advisors who will work with me to improve our investment climate. This will be called the Investment Advisory Council, part of the Tymoshenko Transparency Initiative. Members will come from business abroad and entrepreneurial activity here at home. This will not be a traditional investment advisory panel as we’ve had in the past, some of which existed in law but never actually convened. This will be a group that agrees to come on board to work – not friends or vested business interests.

- This group will coordinate through the Office of the Prime Minister. I will personally attend meetings to review progress.
- It will be composed of business professionals, executives, experts in corporate governance, change management and public policy, for example. Names are currently under consideration, and we will be engaging in a consultative process with many of you here today for your recommendations. Integrity, character, experience, willingness and time are critical determining factors.

The EBA will participate on the Council in a “watchdog” role. Because the process is transparent, it can be held accountable – if the objectives are not accomplished, the EBA and others will be certain to speak up, early and often.

My challenge to you, the entire investment community, is the following: my government is here to speak with you about specific issues; we are taking on board your recommendations and offering our own proposals for your consideration. Engage us, communicate with us and hold us accountable – that is the purpose of a democratic government in a civil society in which we are all stakeholders.



This is the type of transparency this government seeks in the Transparency Initiative – and this is just the beginning. Pay close attention; this theme will permeate our policies and actions.

Do not say it is business as usual in Ukraine – it is not – and the discussion here today, which begins to fulfil our obligations in the “Contract with Investors”, is evidence of that.

I thank you for your time today.

Questions or comments? E-mail us at nlysova@beauty.net.ua