

The Europe Day Message

This week Ukraine sends a strong message to the world by throwing its weight behind Europe Day, marking the birthday of the European Union (EU). The scale of the celebration reaffirms Ukraine's intent to one day join the 27-member nation body.



▲ Getting into the European spirit. Ukraine celebrates Europe Day with events in Kyiv, Odessa and Donetsk.

Major events are planned in Kyiv on 11 May, Odessa on 14 May and Donetsk on 17 May. The Europe Day celebrations are being organised by the government and the Ministry of Foreign Affairs, in cooperation with the Delegation of the European Commission to Ukraine and the embassies of EU Member States and Candidate Countries.

"We stand squarely behind the Europe Day festivities," said Hryhoriy Nemyria, Deputy Prime Minister responsible for European integration, "it provides ordinary people with the opportunity to find out more about our European neighbours and why this market of 500 million people is so strategically important to our nation's future."

Europe Day traces its roots back to the post-war era. In Paris on 9 May, 1950 French Foreign Minister Robert Schuman articulated his vision for an organised more cohesive Europe. On that day he called for France, Germany and other European countries to pool together their coal and steel production. It was the first step on the road to a united Europe.

Recognising the significance of the event, EU leaders at the 1985 Milan Summit officially designated 9 May as "Europe Day" – a day to celebrate common European values, a shared past and look forward to the future.

In Kyiv they did just that. A European Village was erected on Khreschatyk with 50 pavilions hosting Europe's nations. Visitors could find out more about the geography, culture and history of their European neighbours and even sample national delicacies in the European Food Corner.



▲ Hryhoriy Nemyria, Deputy Prime Minister responsible for European integration.



The carnival atmosphere culminated in a rock concert which packed Maidan (Independence Square). Headliners were the Ukrainian Band Vopli Vidoliasova, Lithuanian band SKAMP and Italian punk rockers Vanilla Sky – best known for their rock version of Rihanna's "Umbrella."

In addition, there were opportunities to explore more weighty issues. A number of public discussion tents were planned, amongst them a tent on economic issues hosted by the Ukrainian-based European Business Association (EBA), and a tent from the Yalta European Strategy (YES) to debate political issues.

The focus of YES is "to promote the development of a just, free and prosperous Ukraine," and in so doing open Ukraine to the rest of the world and support its bid for membership of the EU. YES, which brings together policy-makers, business leaders, thinkers, researchers and journalists, is probably best known for its annual summit in Yalta.

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In Odessa, the Prymorskyi Boulevard will be the focal point for the celebrations. Events include an international conference, entitled "Development of Economic Cooperation in the EU Under Conditions of Ukraine's WTO Membership."

The EU remains Ukraine's largest market and trading partner. In 2006, Ukraine's trade with the bloc was worth approximately 28 billion euro (representing 1.1 percent of total EU trade), a figure which has been growing steadily since 1998. Iron and steel, mineral products and chemicals accounted for 64 percent of Ukraine's exports to the EU.

Closer Ties

The government of Prime Minister Yulia Tymoshenko has drawn Ukraine closer to the EU. In February, landmark negotiations began on establishing a deep and comprehensive Free Trade Agreement. Both sides anticipate this agreement will go well beyond the standard free trade treaty by encompassing the liberalisation of services and harmonisation of the regulatory environment – a vital prelude to a bid for membership.

"The Free Trade Agreement will be a giant leap forward and a catalyst for the modernisation of Ukraine's economy," said Mr Nemyria.

"Most Kyiv citizens will regard Europe Day as a carnival and concert," said a Swedish businessman based in the capital, "but scrape away the flags and the bunting and what you see is the committed political orientation of this county of 46 million people. The course set is practically irreversible."

Inflation Begins to Slow



Ukraine's inflation rate rose 3.1 percent last month, and although this was lower than the 3.8 percent rise in March, it was nevertheless seized upon by the government's critics.

During April the annual inflation rate breached the 30 percent barrier on the back of an almost 50 percent hike in food prices. Ukraine is not alone. Food commodities around the world have soared in recent months, causing civil unrest in a number of countries.

Addressing a government meeting, Prime Minister Yulia Tymoshenko acknowledged the seriousness of the issue and took a crumb of comfort from statistics revealing a slowdown in the trend.



"As far as inflation is concerned, we have a considerable slowdown of price growth compared with the previous month. The prices of more than 20 staples of food have started to fall," said Ms Tymoshenko.



▲ Oleksandr Turchynov, Ukraine's First Deputy Prime Minister.

The government, which cracked down on food prices by setting caps, applauded measures taken by the National Bank. These involved measures to soak up the liquidity of the hryvnia, its issuance of large amounts of depository certificates, and a more liberal attitude towards the exchange rate, now operating within a less restrictive band against the US dollar.

First Deputy Prime Minister Oleksandr Turchynov stressed the need to continue to withdraw hryvnia from circulation in order to dampen price rises. Then addressing budgetary issues, he warned that there may be repercussions if the government's privatisation plans are not unblocked. He suggested the government may be forced to reduce the amount it allocates to infrastructure programmes. This could have an adverse impact on the country's prepara-

tions for the UEFA Euro 2012 soccer tournament, which requires wide-scale modernisation of roads, rail and airports as well as a major hotel building programme. "Those hell-bent on sabotaging the finances better think again," said Mr Turchynov.

Assuaging concerns, Ms Tymoshenko once again stressed the government's forecast that measures to curb inflation were on track and would bear fruit in the second half of the year. "In June we will have absolutely positive tendencies and positive dynamics," she said.

The Predictability of Gas

In the same week that Naftohaz Ukrainy announced record figures for natural gas flowing through its pipelines to Europe, Oleh Dubyna, the head of the state-run gas company, reaffirmed his goal for a 15-year gas agreement with Russia's state owned gas company, Gazprom. The deal would fix import price increases for the next five-years, contributing to more stable relations between the two companies.

"I would like to have at first a contract in which it will be precisely noted -- from the current \$179, in the next 5 years, there will be percentage rises every year. And this will be fixed," said Mr Dubyna.

Ukraine's supply contract to import 55 billion cubic metres of gas from Russia and Central Asia is through the controversial RosUkrEnergo. The price for 2008 is fixed at \$179.5 per thousand cubic metres – up from \$130 a year ago and \$95 in 2006.

First Deputy Prime Minister, Oleksandr Turchynov, expressed the government's desire to "complete negotiations that will fix the price of gas for 2009 during this summer and not to let it drag on until January."



Mr Turchynov, a former head of the SBU, and BYuT's candidate for the mayor of Kyiv, talked of the need for "beneficial relations" with Russia and the importance of eliminating intermediaries in favour of direct contracts between Naftohaz and Gazprom. He also maintained that "prices on natural gas supply and gas transit must be linked to each other."

Ukraine is a major artery for Russian gas exports to Western Europe. Its network of transit pipes carries 80 percent of Russia's total gas exports. Last week, Ukrtransgaz, the Naftohaz subsidiary responsible for transit, announced an all time record quarter for the gas it transits to European countries. From January to April 2008, 45.1 billion cubic metres of gas was transited to Europe, up 29.9 percent, or 10.4 billion cubic metres on the same period in 2007.

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Noting the new record, Ukrtransgaz issued a statement saying it had proven itself to be "a reliable partner of Russia's gas company Gazprom in the transporting of natural gas to European countries." It went on to stress that "the

Ukrainian route has significant reserves for growth."

Ukraine's gas transportation system has the capacity to transit 142.5 billion cubic meters of gas a year to European countries. It currently transits about 115 billion cubic metres, accounting for almost a quarter of the needs of the European Union.

Appointed in December 2007, Mr Dubyna is turning around the loss making Naftohaz. With the backing of the government he has helped to liquidate UkrGazEnergo and return profitable industrial supply contracts to Naftohaz. A pragmatist, he acknowledges the need for gas prices to rise and that Ukraine will eventually pay market prices. However, he has called for rises to be both gradual and predictable.

"We need a long-term contract with an agreed formula for gradual rises towards Central European prices," said Mr Dubyna.

This view is shared by Prime Minister Yulia Tymoshenko, who sees the removal of dubious intermediaries and a stable and predictable energy policy as the cornerstone of her administration's new relationship with new Russian President Dmitry Medvedev.

Tymoshenko Congratulates Russia's Leaders

Ukraine's Prime Minister Yulia Tymoshenko congratulated Dmitry Medvedev on his inauguration as President of the Russian Federation. In a government telegram the premier expressed an assurance that Mr Medvedev would ensure succession of power and the irreversibility of the country's course, supported by real achievements in serving the interests of the Russian people.

Ms Tymoshenko also sent a telegram to Vladimir Putin, Russia's new Prime Minister. She said that she believed his appointment as Head of Government will promote the economic potential of Russia and improve the well-being of its citizens.

Ukraine's premier confirmed the readiness of her government to strengthen bilateral cooperation and to promote positive relations between the two countries as strategic partners.



▲ Prime Minister Yulia Tymoshenko.