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Newsletter for the international community providing views and analysis from the Bloc of Yulia Tymoshenko (BYuT)

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Coalition Government Inches Closer

Preparations are underway for the first session of the sixth convocation of the Verkhovna Rada – Ukraine's parliament. The process of registering deputies has begun and the parliament may sit as early as next week. But all eyes are on the coalition agreement between the Bloc of Yulia Tymoshenko (BYuT) and the pro-presidential Our Ukraine-People's Self-Defence (OU-PSD) bloc, which still lacks several signatures from President Yushchenko's party.

According to Vyacheslav Kyrylenko, one of OU-PSD's leaders, every effort is being made to ensure that the official coalition agreement is signed on the first day of the parliament's session.

However, the month-long delay has prompted many observers to question whether OU-PSD will honour the coalition protocol inked between the two blocs last February.

"The electorate will never forgive Yushchenko if his bloc backs out now and forms a coalition with the Regions," said an expat businessman living in Kyiv, "you must ask yourself why bother having an election in the first place. The people I talk to are fed-up and want a speedy resolution."

On Monday, while addressing students at a university in Kyiv, William Taylor, the US Ambassador, denounced the delay. He urged Ukraine to form a government quickly and push through reforms to hasten the country's economic and political integration with the West.

Nothing procedural is holding back the Orange forces. On 25 October, Ukraine's High Administrative Court rejected legal claims from five parties alleging that the Central Election Commission (CEC), which oversaw the election, made serious procedural mistakes. The allegations, which focused on vote counting and the CEC's supposed non-response to election violations, were firmly quashed.

Following the court's announcement, the official parliamentary election results were formally published on 27 October. According to Ukraine's constitution, the new parliament has to hold its first session within 30 days of the official election results being published, and a government must be formed within 30 days of the Verkhovna Rada's first sitting.



▲ Yulia Tymoshenko meets with Colin Powell the former US Secretary of State. Amongst other things, they discussed issues of Euro-Atlantic integration, regional and energy security, military reforms and ways to improve the investment climate in Ukraine and attract foreign investment.

Mr Powell congratulated Ms Tymoshenko on the elections and wished her success in the future.



If OU-PSD honours its pledges, Yulia Tymoshenko will return as prime minister of the next parliamentary government. Yet the size of her majority will depend on whether the Lytvyn Bloc will throw its hat into the Orange ring and join a governing coalition with BYuT and OU-PSD.

Still Smarting

Despite the outcome of the election, Mr Yanukovich's lieutenants continue to trumpet their spin doctor's line that their party "came first." The claim is nothing short of meaningless given Ukraine's proportional representation system and the resulting requirement for a coalition government. Another favourite line is that Ukraine cannot be "united" without the inclusion of the Party of Regions in the government. What is conveniently glossed over is the fact that BYuT performed impressively in the east of the country and represents the only nationwide political force.

Similarly ignored is the fact that although the Party of Regions gained two percent more than it garnered in 2006, the number of actual votes it received in 2007 declined by 135,000. In contrast, BYuT added 1.5 million votes which amount to 8 percentage points more than it polled in 2006. Translated into seats in the parliament, the Party of Regions will drop from 186 to 175 seats, while BYuT will add 27 seats – up from 129 to 156 seats. When the latter is combined with the 72 seats from OU-PSD, the Orange team is able to muster 228 seats, giving it a slim majority in the 450-seat Verkhovna Rada. Although the victory gives the Orange forces a moral and legitimate majority, the addition of 20 seats from the Lytvyn Bloc would provide a welcome cushion and help ease the passage of tough reforms.

"Ukraine's credibility is on the line," said Oleksandr Turchynov, BYuT Deputy Chairman, "we call on our allies to form a coalition government of truly democratic forces. It's important for the sake of the nation that we get down to the matter of government without further delay, for there is much to do."

Setting the Investment Agenda

Despite its growing economy, Ukraine still languishes behind many former Soviet bloc countries in Eastern Europe when it comes to attracting entrepreneurs. According to a report published in the Economist, Ukraine lies in 70th place out of 82 countries surveyed.



▲ Viktor Pynzenyk (third from right) talks to western investors at the conference call hosted by Concorde Capital in Kyiv.

Understanding the need to make Ukraine a more attractive proposition to investors, Viktor Pynzenyk of the Bloc of Yulia Tymoshenko (BYuT) and leader of the Reforms and Order Party took time to convey to western investors the main thrust of BYuT's economic policies.

The former finance minister held a conference call hosted at the offices of Concorde Capital, one of Ukraine's leading investment banks. The call attracted representatives from more than 60 western funds and came hot on the heels of a similar call hosted by Bear Stearns earlier last month. Both interactions



underline the investment community's thirst for information as it prepares to come to grips with the impending new administration.

Business New Europe described it as "a slick performance by Pynzenyk, who was on message to sell a transfer of power that should end in November with Tymoshenko taking control as Ukraine's new prime minister."

"Even back in 2005, Yulia Tymoshenko's Cabinet had no plans to revise the outcomes of privatisations. Nor does Yulia Tymoshenko have plans like that today."

Privatisation Policies

Once questions on the timing and likely make-up of the new government were out of the way the question on most people's minds was privatisation policy and whether a Tymoshenko-led coalition government would embark upon a wholesale re-privatisation programme?

According to Concorde Capital: "On the topic of privatisation Pynzenyk's goal was clear: the only criterion for those wishing to take part in public tenders was price, with assets going to the highest bidder. One of the main goals of the new government will be providing greater access to all who wish to take part in privatisation tenders."

On the issue of re-privatisations, Mr Pynzenyk was equally emphatic. "Even back in 2005, Yulia Tymoshenko's Cabinet had no plans to revise the outcomes of privatisations. Nor does Yulia Tymoshenko have plans like that today. What the government will do is to take corrective measures through the courts and challenge certain privatisation projects," he said. Mr Pynzenyk made it clear that it should be a non-political issue with the matter left to the courts to examine some cases where the tender process did not correspond to the law.

The great irony is that Yulia Tymoshenko has never advocated a mass privatisation programme. A news report in 2005 which suggested she advocated reprivatising 3,000 companies was a cynical misrepresentation of the point she was making, which was that unless there was clarity on the issue there could be 3,000 disputes going through the courts which would harm investment prospects. Ironically, she was campaigning for the very thing her party has always stood for: clear policy and the protection of property rights in accordance with the rule of law.



For those interested in listening to the replay of the conference call please use the appropriate telephone number for your area and when prompted provide the replay ID number.

Conference Name: None

Replay ID: 74354563

Local: France +33 [0] 1 71 23 02 48

Local: Germany - Frankfurt +49 [0]69 22222 0418

Local: Germany Freephone 0800 181 4459

Local: Ireland Freephone 1800 992 833

Local: Italy - Rome +39 066 605 3181

Local: Sweden +46 [0]8 5876 9441

Local: UK +44 [0]20 7784 1024

Local: USA Freephone 1 866 239 0765

Local: France Freephone 0800 91 14 79

Local: Germany - Munich +49 [0]89 2030 3236

Local: Ireland +353 [0]1 659 8321

Local: Italy - Milan +39 026 968 2247

Local: Italy Freephone 800 925 259

Local: Sweden Freephone 0200 887 740

Local: UK Freephone 0800 559 3271

Local: USA toll number 1 718 354 1112



Mr Pynzenyk's tone underlined a maturity in the Orange camp that was not lost on the audience. "Tymoshenko is pitching a new pragmatic stance and has backed off from her fiery rhetoric," commented Business New Europe.

Going forward Mr Pynzenyk promised that a Tymoshenko-administration would end the crony-capitalism that characterised the Yanukovych-administration. The entire process of privatisations and the sale of licenses will be subject to open tenders and fair competition.

Simplify the Sale of Land

This process will also be extended to the sale of land which Mr Pynzenyk pledged would be "radically simplified" with land sold only after pre-defining its purpose. This will come as a relief to many and in particular to backers of greenfield construction projects who will be able to invest with greater confidence.

On the thorny issue of the sale of agricultural land, Mr Pynzenyk said that the present moratorium was meant to be short-lived whilst the government made important changes to agricultural property legislation. Rules for altering land and the creation of a single unified land registry were mentioned as regulations that must be adopted.



▲ Answering a journalist's question. Viktor Pynzenyk sets out BYuT's economic agenda.

Fair Taxation

One of the objectives of the new administration will be to increase foreign direct investment into Ukraine. Mr Pynzenyk recommended to "abolish all taxes on investment" so as to create an even playing-field in which "all investors should enjoy an equal standing." This would rule out special economic zones which, in the past, have been havens for fraud and corruption. Also planned is a change in the way taxes are collected with greater focus on businesses that deviate from the rules. "Those companies that pay taxes in good faith should never see the face of a tax inspector on their doorstep," said Mr Pynzenyk.

In answer to a question on the exchange rate, Mr Pynzenyk said that he saw significant appreciation potential for the hryvna, which he thought should no longer be pegged to the dollar if the country wants to avoid inflation. He advocates a more liberal exchange rate with an emphasis on inflation targeting. He endorsed the Central Bank's policy in this respect and outlined the need to slow external borrowing and focus more on the domestic market where bank liquidity is high and has put heavy upward pressure on inflation.

The conference call underlined BYuT's commitment to attracting foreign investment and conveyed a strong message that a Tymoshenko-led administration would have a positive impact on the investment climate. Furthermore, it strengthened the arm of the growing band of revisionists by dispelling the spin that has been skilfully applied in the past to black paint Ms Tymoshenko's economic and fiscal credibility.

Speaking after the call Mr Pynzenyk said, "It's really quite simple when it comes down to it; stability, transparency and accountability, that's what we stand for."

