



# Gorshenin *Weekly*

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**Ukrainian Parliament  
passes pension reform**

**On 8 July 2011, the Supreme Council of Ukraine adopted the law on pension reform, which was drawn up by the Ukrainian Cabinet of Ministers.**

The law envisions that the retirement age for women will be gradually raised from 55 to 60 years, the work history requirement for a pension will be increased by 10 years for both men and women and the maximum pension will be limited to 10 minimum wages.

The law will take effect on 1 September 2011 after Ukrainian President **Viktor Yanukovich** signs it.

According to the Ukrainian news and analysis website Lb.ua, during the process of debating the pension reform draft, MPs did not pass the amendments which had been put forward by the opposition. Hence, the adopted law is virtually the same as the initial draft approved in the first reading in June.

A reminder that the IMF requires the implementation of pension reform in Ukraine in order to grant it the third tranche of its stand-by loan.

The former Ukrainian prime minister and the leader of the opposition Fatherland party, **Yuliya Tymoshenko**, said that the parliamentary faction of the Yuliya Tymoshenko Bloc (YTB) intended to challenge the approved pension reform in the Constitutional Court of Ukraine (CCU). She is convinced that pension reform was adopted in violation of the Constitution. Tymoshenko added that this law makes the lives of people worse which, according to her, contradicts the Constitution.

The Ukrainian deputy parliamentary speaker, **Mykola Tomenko**, believes that the opposition has all the grounds to challenge pension reform in the CCU since the law was passed by no more than 143 MPs. "I conducted an analysis and saw that according to the written registration records, there were only 143 MPs in attendance out of 248 of those who voted in favor of pension reform," he explained. According to him, this is a very important argument for challenging the law in the CCU.

For its part, the ruling Party of Regions believes that it is "practically impossible" to prove that the majority of the MPs were not in the parliamentary chamber when the vote for pension reform took place.

"It is really difficult to prove the presence of MPs in the chamber while there was a constant movement, while some were working in committees and some were in the chamber. This is doomed to failure," the head of the Party of Regions parliamentary faction, **Oleksandr Yefremov**, said. At the same time, he added that President Yanukovich will decide whether pension reform should be signed or vetoed only after experts check whether it is in line with the Constitution.

During a news conference on 8 July 2011, President Yanukovich said nothing about the adopted pension reform. At the same time, he noted that reforms were necessary even though they cost the people dearly.

It is noteworthy that a number of opposition politicians have an intention to request that President Yanukovich veto the adopted pension reform law.

The Ukrainian deputy prime minister and the social policy minister, **Serhiy Tyhypko**, who authored pension reform, believes that the adoption of the pension legislation demonstrates that Ukraine "is moving along the path of reforms."

In his turn, parliamentary speaker **Volodymyr Lytvyn** did not rule out that mass disturbances might take place as people are dissatisfied with the authorities who had passed pension reform.

At the same time, an expert of the Gorshenin Institute, **Volodymyr Zastava**, believes that the adopted pension reform speeds up a crisis of the Ukrainian pension system. You can read his comments in detail on page 12.

**Former State Customs Service head, former energy customs deputy head released**

**Officials from the Tymoshenko cabinet, who had handled the customs clearance of the RosUkrEnergo (RUE) gas, have been released from detention.**

On 7 July 2011, the Kiev court of appeals freed the former State Customs Service head, **Anatoliy Makarenko**, and the former deputy head of the energy regional customs, **Taras Shepytko**. The panel of judges ruled that their prevention measures should be changed from detention to a written pledge not to abdicate.

At the same time, the court refused to free the former deputy head of the Ukrainian state-run oil and gas trader Naftohaz Ukrayiny, **Ihor Didenko**.

A reminder that Didenko, Makarenko and Shepytko are accused of misappropriation of natural gas owned by the RosUkrEnergo company and its illegal customs clearance in February-March 2009. All three officials were arrested in the summer of 2010. Their case has been forwarded to the Prosecutor-General's Office (PGO) of Ukraine for further investigation and a revision of charges as a result of the criminal case that had been launched against former Prime Minister **Tymoshenko** over the 2009 Ukrainian-Russian gas contracts. The court explained its ruling by the fact that the criminal cases against Didenko, Makarenko, Shepytko and Tymoshenko "consider the same developments and circumstances."

We shall remind you that on 8 June 2010, the Arbitration Institute of the Stockholm Chamber of Commerce ruled that Naftohaz Ukrayiny should return 11bn cubic metres. of gas to RUE and give this Swiss-registered company additional 1.1bn cu.m. as a fine for violating the terms of the contract.

**Tymoshenko's trial over "gas case" will continue on 11 July 2011**

**Examining the merits of the criminal case against the former prime minister Yuliya Tymoshenko will continue on 11 July 2011.**

Judge **Rodion Kireyev**, who is presiding over the case, explained this decision by the absence of Tymoshenko's lawyer **Mykola Tytarenko**, who was taken to hospital from the court chamber on 8 July 2011. The judge obliged Tymoshenko to notify the defense about the date of the next hearing.

A reminder that Tymoshenko had said earlier that presiding judge Kireyev had violated the judicial oath of office on multiple occasions and demanded his replacement. However, her request was turned down.

President **Yanukovych** believes that the court does not violate the law. "As my consultants, whom I ask these questions, told me, the court does not violate the law. However, there are violations of the law on Tymoshenko's part," he said.

It is noteworthy that on 11 July 2011, former Ukrainian Interior Minister **Yuriy Lutsenko** will also stand trial at the Kiev Pecherskyy district court.

The international community continues to express its concern about court persecution of opposition politicians.

For example, giving a presentation during a meeting of the Ukraine-EU parliamentary club, **Stefan Fule**, the European commissioner responsible for enlargement and European neighbourhood policy, said that he was concerned about the situation with criminal cases launched against Ukrainian opposition politicians and the recent developments in the case against Tymoshenko.

According to Freedom House's executive director **David Kramer**, by persecuting Tymoshenko, the Ukrainian government attempts to strip her of the right to participate in elections. He is convinced that the trials against Tymoshenko and other opposition figures undermined people's trust in the government and judiciary. They also destroy the independence of the Ukrainian government agencies and impede the process of Ukraine's integration into the EU, Kramer added.

## Fresh criminal case launched against Tymoshenko

**The Security Service of Ukraine (SBU) has opened a new criminal case against former Ukrainian Prime Minister Yuliya Tymoshenko.**

The SBU's main investigation directorate launched the criminal case over attempted embezzlement of 405m dollars by the former cabinet members and the Yedyni Enerhetychni Systemy Ukrayiny (YESU) industrial-financial corporation, the SBU press service reported on 5 July 2011.

The criminal case was opened after Ukrainian Prime Minister **Mykola Azarov** submitted a request to this effect to the SBU on 23 and 29 April 2011. Prior to this, Russian Defense Minister **Anatoliy Serdyukov** had requested on 10 June 2011 that the Ukrainian government consider this issue.

We shall remind you that Russian Defense Minister Serdyukov sent a letter to Prime Minister Azarov with a request to consider the issue of clearing the debt to Russia that the YESU corporation under Tymoshenko's leadership had accumulated. A copy of the letter circulated by the mass media stated that as a result of "the improper fulfillment of the contracts, the total sum of debts which YESU owes to the Russian Defense Ministry is 405.5m dollars." According to the letter, the issue has to do with the YESU obligation under the contracts of 1996 and 1997 to supply products for industrial and technical purposes to the Russian Defense Ministry. When YESU accrued this debt, it was headed by Tymoshenko.

Prime Minister Azarov said that the Ukrainian government had no intention to pay off YESU's debts.

In her turn, Tymoshenko denied the existence of this debt to the Russian Defense Ministry. She added: "I have not worked for this company since 1996."

Commenting on the new criminal case, Tymoshenko's lawyer **Serhiy Vlasenko** said: "First of all, it is on the basis of fact, or, in other words, not launched against Tymoshenko personally. Second, if the government returns to the events that took place 15 years ago, it means that they cannot find anything else against Tymoshenko."

## Ukraine approves law paving way for lifting ban on land privatization

**The Ukrainian Parliament approved the law On State Land Cadastre on 7 July 2011.**

By approving the law, parliament also established a procedure for maintaining the land cadastre and a procedure for state registration of a land plot.

It is worth mentioning that the law "On Land Cadastre" is one of the two important legal pre-requisites required to lift the moratorium on sale of arable land.

It is expected the parliament will consider the second legal move required to lift the privatization ban – the law “On land market” – at its next session in September 2011.

The Vice President of the Gorshenin Institute, **Oleksiy Leshchenko**, has said that the creation of a land market in Ukraine was a very acute issue. “It is well known that the Ukrainian Parliament did not extend a moratorium on the sale of farmland, which had been imposed in Ukraine for many years of its independence. This means that a new market is emerging in Ukraine. Equal access to it is a key issue for the year and also the entire decade which, according to different forecasts, will experience a very bad food crisis. Whether European or Russian investors will be admitted to this new market is an open question. At present, a legislative basis that will regulate the operation of this market is only in the works. The Ukrainian Parliament will have to adopt all the necessary laws,” he noted. At the same time, Leshchenko did not rule out a possibility that the rules of the game in this market will be set to accommodate certain players. “In the near future, we will understand who these players are. According to certain information at our disposal, in addition to designated Ukrainian financial-industrial groups, Ukrainian land assets can be purchased by big businesses from Arab countries, for which special favorable conditions will be created,” he concluded.

## Ukraine may lower harvest forecasts because of heavy rain

### The Ukrainian government expects lower harvest of wheat because of recent rain.

In particular, the harvest of winter and spring wheat in a number of regions of Ukraine in 2011 may be lower than expected because of adverse weather conditions, the first deputy prime minister and the minister of economic development and trade, **Andriy Klyuyev**, has said.

Minister of Agricultural Policy **Mykola Prysyazhnyuk** said for his part that the share of feed grain in the 2011 harvest would increase. According to Prysyazhnyuk, because of heavy rain we have some negative cases like grain germination in spike. He also said, however, that the ministry has not lowered the crop forecast to date.

A reminder that earlier the Ukrainian Ministry of Agricultural Policy forecasted grain harvest as much as 45 m tonnes.

## Russia's Gazprom urges merger with Ukraine's Naftohaz Ukrayiny

### A working meeting between Gazprom Chairman Aleksei Miller and Ukrainian Energy Minister Yuriy Boyko took place in Moscow on 5 July 2011.

Miller told journalists after the meeting that he can not say anything new and the issue of revising the price of gas for Ukraine can only be considered in case of a merger between Gazprom and Naftohaz Ukrayiny.

Earlier Miller made a number of statements like this.

However, Ukrainian President **Viktor Yanukovych** said on 8 July 2011 that Ukraine did not plan to merge Naftohaz Ukrayiny with Gazprom. “We did not plan a merger as such. We only planned work of Naftohaz Ukrayiny and Gazprom under joint projects like modernization of the Ukrainian gas transport system, extraction of oil and gas at certain fields, including on Ukrainian territory”, Yanukovych said. Yanukovych then stressed again that they did not discuss a merger as an option at all. Nevertheless, Yanukovych is still looking for reaching a compromise with Russia in July 2011 to lower the price of gas for Ukraine. “We plan to meet with Russian President **Dmitriy Medvedev** this month (July 2011) and God willing, we will solve the problem”, President Yanukovych said not specifying the venue of the

meeting.

Yanukovych also said that Ukrainian Prime Minister **Azarov** and Russian Prime Minister **Vladimir Putin** would meet prior to his meeting with the Russian president and the issue of the price of gas will be discussed between the two prime ministers as well.

A reminder that Naftohaz Ukrayiny paid Gazprom about 860m dollars for the gas imported in June 2011. The price of natural gas for Ukraine in the second quarter 2011 was 297 dollars per 1,000 cu.m. However, the price of gas will rise to about 355-357 dollars per 1,000 cu. m. in the third quarter of 2011.

**President Viktor Yanukovych: Ukraine to join Customs Union only in framework of 3+1 formula**

**Ukraine is ready to join the Customs Union of Russia, Belarus and Kazakhstan in the framework of 3+1 formula.**

"The 3+1 formula is the formula of Ukraine's strategy in foreign policy, so we persuade our partners to transfer the existing experience in trilateral relations into the 3+1 formula", Yanukovych said at a press conference on 8 July 2011.

Earlier the Russian side said repeatedly that Ukraine may have a discount on gas price if the country joins the Customs Union.

**Speaker of Ukrainian parliament: Cabinet proposed privatization of gas transport system by chance**

**The speaker of the Ukrainian parliament, Volodymyr Lytvyn, believes that the provision for the possibility of selling the country's gas transport system was included in the law On Law on State Guarantees of Enforcement of Court Rulings by error.**

According to Lytvyn, the draft law "deals with the as resolution by the European Court of Human Rights where it was required to implement related legislations". "The government's reaction was very prompt and the corresponding draft law was proposed... I think that the provision about the gas pipeline was included there purely by accident", Lytvyn said.

Earlier the head of the parliamentary committee for national security and defence, **Anatoliy Hrytsenko**, said that Parliament would approve the draft law №7562 that paves the way for selling the Ukrainian gas transport system. Hrytsenko is certain that the government approved this decision under pressure from Russia and that the Ukrainian gas transport system would go to Russian owners.

A reminder that draft law №7562 allows the government to privatize facilities that were earlier banned from privatization.

In particular, the said draft law is intended to amend Article 7 of the law of Ukraine "On pipeline transport". This Article in its current revision prohibits reorganization and privatization of state-owned companies operating major pipeline transport. Also, it prohibits alienation or any other manipulations with key assets and shares of state-owned companies operating major pipeline transport, assets and shares of Naftohaz Ukrayiny, its daughter companies and subsidiaries, gas stores. The proposed changes are aimed at giving the government the authority to identify a list of companies according to Article 7 of the law of Ukraine "On pipeline transport".

**President Viktor Yanukovych wants to split Naftohaz Ukrayiny into smaller companies**

**Ukrainian President Viktor Yanukovych has urged splitting Naftohaz Ukrayiny into several separate companies with subsequent access to international equity markets.**

Yanukovych said that at a press conference on 8 July 2011, the LB.UA news website reports.



contract law by courts, and particularly corruption.

A reminder that a presentation of the Progress Rating, developed by FBK audit and consulting company, took place in Moscow, on 5 July 2011.

The Progress Rating is built based on the world's most known rankings dedicated to different aspects of the development of countries. These are: World Bank's ranking, UNO rankings and rankings produced by other international analytical centres based on the index of competitiveness, conditions for doing business, development of human potential, economic freedom, perception of corruption index, etc. In this rating Ukraine was ranked second from last, the 100<sup>th</sup> place, with the progress index at minus 123.

**Ukraine is one of the leaders in price increases among CIS countries**

**According to the data of the CIS Statistical Committee, Ukraine is among the four leaders of the CIS in terms of price increases.**

Tajikistan is second with an inflation rate of 6.9%, Kyrgyzstan is third – 6.5%. The prices in Ukraine (the fourth place) have risen by 5.5%.

It is worth mentioning that according to the State Statistics Committee of Ukraine, consumer prices increased by 11.9% in June 2011 compared with June 2010.

**Ukraine's international reserves shrank by 334m dollars**

**Based on the results of June 2011, the international reserves of Ukraine have decreased by 334 m dollars (0.9%) – to 37.6bn dollars.**

It is worth admitting that the international reserves of Ukraine have been decreasing for the second consecutive month – NBU reserves shrank by 1.3% (484.2 m dollars) in May 2011.

**Media: the conflict between Vanco Prykerchenska and the government of Ukraine will be settled in court**

**The Cabinet of Ministers of Ukraine has suspended negotiations with Vanco Prykerchenska to conclude a settlement agreement.**

According to the media, the negotiations between Vanco Prykerchenska on the one hand and the Ukrainian government on the other hand, have been suspended by mutual consent. The reasons for the suspension are unknown.

At the same time the media, referring to the source, close to the negotiations, have reported that the parties failed to agree on the legal confirmation of the long-term protection guarantees of the investment of Vanco Prykerchenska in the amount of 20 bn dollars. Whereupon, the decision was taken to settle the matter in court.

However, according to the information portal LB.UA, the government web-site posted the draft of the settlement agreement between the state of Ukraine and Vanco Prykerchenska of April 11<sup>th</sup>, 2011.

A reminder that the Vanco Prykerchenska company received a license to extract oil and gas from the Black Sea shelf of the oil and gas area near Kerch in October 2007. Later, in April 2008, the Environment Ministry, which was headed by **Heorhiy Filipchuk**, rescinded the license that was granted to Vanco Prykerchenska.

We would like to note that a Ukrainian businessman, Party of Regions MP Akhmetov, co-owns Vanco Prykerchenska. A criminal case has been launched against former Environment Minister Filipchuk, who is suspected of abusing power.

**Livela company claims they imported oil products into Ukraine legally**

**Livela claims their import of oil products in 2010 was legal.**

In particular, during the meeting of the Temporary Investigation Commission (TIC) of the Verkhovna Rada of Ukraine when the activities of the importer of oil products Livela were investigated, the company's lawyer **Nazar Gorodetskyi** informed that

"The present-day structure of Naftohaz Ukrayiny is complicated and not always efficient. Today it is the right time to split this company to enable smaller structures to develop individually and set up real market mechanisms of development", Yanukovych said. He added that he meant companies now fully or partially owned by Naftohaz Ukrayiny, like the oil extraction company Ukrnafta, the gas extraction company Ukrhazvydobuvannya, the gas transport company Ukrtransnafta and Crimea-based oil and gas extractor Chornomornaftohaz.

A reminder that Naftohaz Ukrayiny plans an IPO in 2012-13.

## **President allows export of Ukrainian gas**

### **Ukrainian President Viktor Yanukovych signed the law allowing export of gas extracted in Ukraine on 7 July 2011.**

Earlier, on 17 June 2011, the Ukrainian parliament amended the law establishing principles of operation of the market of natural gas.

In particular, Parliament gave permission to use gas that is extracted in Ukraine for honoring the agreements on gas exports under existing contracts in line with intergovernmental agreements.

A memo to the draft law said that under the contract between Naftohaz Ukrayiny and Russian Gazprom of 19 January 2009 on purchase-sale of natural gas in 2009-19, it is envisioned that gas is intended for Ukrainian customers and cannot be delivered outside Ukraine. At the same time, under the relevant laws, gas extracted in Ukraine should go towards satisfying the needs of the population. Given the absence of other gas sources, Naftohaz Ukrayiny stopped gas deliveries to Poland, which was done under the contract of 26 October 2004, signed between Naftohaz Ukrayiny and the Polish national oil and gas trader Polskie Gornictwo Naftowe i Gazownictwo S.A.

According to the member of parliamentary committee on fuel and energy sector, an MP on the Yuliya Tymoshenko Bloc, **Oleksandr Hudyma**, the permission to export Ukrainian gas "is very beneficial for certain individuals involved in the gas extraction business".

"First of all, I am talking about the Ukrnafta company (controlled by the so-called Pryvat group of Ukrainian businessman **Ihor Kolomoyskyy**) which extracts large volumes of gas in Ukraine, and also about other business tycoons who own gas fields in Ukraine", Hudyma said. Hudyma also said that these companies will sell Ukrainian gas abroad while people will have to buy expensive Russian gas.

## **Forbes: Ukraine hits top five world's worst economies list**

### **Forbes magazine ranked Ukraine among world's worst economies.**

Forbes' list of world's worst economies for the first half of 2011, published on 5 July 2011, puts Madagascar on the top of the list, Armenia goes second followed by Guinea. Ukraine is ranked fourth while Jamaica is the fifth.

To construct the list, Forbes ranked 177 countries according to three-year average statistics for gross domestic product growth and inflation (including the IMF's data), plus GDP per capita and the current account balance.

Forbes explains Ukraine's marching lower ranks and the country's place in the list by the fact that having rich farmlands and rich mineral resources, Ukraine's per-capita GDP still trails behind countries like Serbia and Bulgaria.

With a reference to the US Department of State, Forbes also explains the reasons why Ukraine failed to fulfil its potential and become a leading European economy: complex laws and regulations, poor corporate governance, weak enforcement of



Livela activities were legal. He noted that the duty-free import of oil products into Ukraine in 2010 by the company was carried out in accordance with the Law "On Foreign Investment" of 1992 and the corresponding ruling of Avtozavodskyi regional court of Kremenchuk of January 19<sup>th</sup>, 2004.

Earlier the Ukrainian Parliament has set up a temporary investigation commission to look into the business of an oil products importer, the Livela company. An MP of the People's Union Our Ukraine – People's Self-Defense Bloc, Roman Zvarych, was appointed the commission's chairman. The main tasks of the investigation commission are: to ensure receipt of complete information regarding the circumstances and consequences of Livela's business on the Ukrainian oil products market, to establish the losses that the government has suffered as a result of the tax-free import of oil products, to identify people guilty in breaching existing business legislation.

A reminder that in August 2010 a court granted the Livela company the right to import petroleum products without paying excise duties, VAT and import duties. The company imported petroleum products from July 2010 to January 2011. The State Tax Service then challenged this right in court. The Antimonopoly Committee of Ukraine (AMCU) estimated that the state budget had lost nearly 377m dollars in 2010 as a result of Livella's imports of petroleum products. The AMCU launched an investigation into the situation with the duty-free import of oil and petroleum products in Ukraine, which is still continuing.

According to the Ukrainian mass media, the Livela company is linked to Ukrainian First Deputy Prime Minister **Klyuyev**.

## **The enterprises of fuel and energy complex are exempt from income tax**

### **The Parliament adopted Law #8217 "On amendments to the Tax Code of Ukraine and several legislative acts" on July 7<sup>th</sup>, 2011.**

According to the adopted document, the enterprises of fuel and energy complex (FEC) are exempt from income tax within the limits of actual expenses stipulated for the investment into the construction (reconstruction, modernisation) of interstate, baseline and public mains networks, electric power plants, heat and power stations, main gas lines, gas distribution networks, underground gas storages and the installation of the gas meters for the population.

Bill #8217 also allows chemical enterprises using oil products as raw materials to purchase them without paying excise duty. The list of the enterprises entitled to the mentioned tax benefits will be determined by the government.

According to the experts, the introduction of zero rate of excise duty for the oil products used in the chemical industry is of advantage in the first place for Russian LUKOIL, which owns the biggest petroleum enterprise in Ukraine – the Karpatneftekhim plant in Kalush.

At the same time the players of the Ukrainian oil market are concerned that the state will hurt the market of oil products by helping petroleum enterprises. The General Director of the network "Donetsk oil service" **Viktor Martirosyan** says the similar law was in force at the end of the 90s. "It allowed the creation of a channel to import smuggled fuel into Ukraine. The oil products for the service stations were imported under the guise of fuel for the chemical enterprises", he notes. At that time the fuel of Ukrainian oil refineries (OR) could not compete with the smuggled fuel as the plants were paying the excise duty. As the result, OR operated at the minimum load. The experts note that the vivid example of the similar scheme is

Livela company, which was importing oil products into Ukraine without paying excise, VAT and import duty in the second half year of 2010.

**Parliament has permitted not to approve tenders with one participant**

**On July 8<sup>th</sup>, 2011. Parliament revoked the provision on the necessity of obtaining the approval of the Ministry of Economy for the procurement procedure from one participant**

Thus, Parliament permitted legal entities engaged in economic and business activities to purchase without tender for the state funds of oil, oil products for the subsequent resale or processing.

**Parliament has backed the introduction of biometric passports in the first reading**

**Parliament has adopted the bill “on documents, identifying personality and confirming the citizenship of Ukraine” on July 5<sup>th</sup>, 2011.**

This bill provides the introduction of documents for travelling abroad with the electronic carrier of biometrical information (biometrical passports).

However, according to the media, the Minister of Internal Affairs **Anatoloyi Mogilyov** and the Minister of Justice **Oleksandr Lavrynovych** offered at the government meeting on July 6<sup>th</sup>, 2011 to make every effort to prevent the adopting of the bill “on documents, identifying personality and confirming the citizenship of Ukraine” in the second reading.

Their main argument is that this bill provides the possibility of gathering biometrical data and the issue of new foreign passports by private companies. According to the ministers, it is unacceptable to entrust private companies with gathering biometrical information, in particular, the finger prints of the Ukrainian citizens and the issue of such documents.

**Russia wants to rent unique military training area from Ukraine**

**Russia asks the Ministry of Defence of Ukraine to rent military training area “NITKA” (Crimea) for training involving an aircraft carrier.**

“We discussed (during the bilateral meeting with the Minister of Defence of Ukraine **Mykhailo Yezhel**) the issue of “NITKA” today. For my part, just a few days ago I signed the petition addressed to the Minister of Defence of Ukraine with the request to rent us “NITKA” for **training involving an aircraft carrier**”, the Minister of Defence of Russia **Anatoloyi Serdyukov** informed on July 6<sup>th</sup>, 2011 after the 10th session of the Board of the Ministers of Defence of the CIS.

He stressed that the matter will be resolved positively in the near future.

Note:

“NITKA” (land-based aircraft test training complex) – unique special land-based test training complex constructed in the Soviet Union, simulating aircraft carrier deck and designed to train aircraft take-off and landing on the aircraft carrier. The complex is used for the test flights of aircraft carriers of horizontal take-off and landing, as well as for the training of pilots. The Su-27KUB prototype was tested on the training area.

**Iran has stopped recognising the degrees of Ukrainian doctors**

**Iran no longer recognises the diplomas of medical higher educational institutions of Ukraine and does not grant the right of medical practice to our citizens.**

According to the Chairperson of the Parliamentary Committee on National Security and Defence **Hrytsenko**, he learned this during the international conference in Tegeran on June 26<sup>th</sup>, 2011. The main cause of such decision is the low level of doctors' qualifications, Grytsenko explained. According to him, nowadays people buy diplomas instead of studying hard to get them.

In Grytsenko's opinion, the corruption at the universities and the decreased level of students' training lead to Ukraine losing its image and the exclusion of our state from the international educational market.

**New agreement on the avoidance of double taxation can be signed between Ukraine and Cyprus in autumn 2011**

**Cyprus is ready to sign new agreement on the avoidance of double taxation with Ukraine**

The President of Cyprus **Dimitris Christofias** announced at the joint press conference with the Ukrainian President **Yanukovych** on July 4<sup>th</sup>, 2011 about the willingness to sign the new agreement on the avoidance of double taxation with Ukraine.

According to Yanukovych, the issue of the conclusion of new agreement will be resolved not later than September-October 2011.

As a reminder, currently this field is being regulated by the agreement signed by Cyprus and USSR. This document is being strongly criticized for creating tax loopholes. The Ukrainian Parliament has been repeatedly asked to denounce this agreement but this initiative does not have the support of the parliamentary majority yet.

**A CRISIS OF THE UKRAINIAN PENSION SYSTEM IS ONLY A QUESTION OF TIME - EXPERT**

According to an expert of the Gorshenin Institute, Volodymyr Zastava, the recently adopted pension reform will expedite a crisis in the Ukrainian pension system.

“Law No 7455 on the Ukrainian pension system, which has been adopted today and which a number of officials call 'reform' for some reason, changed several factors related to a distribution of funds accumulated by the pension fund but did not deal with structural changes of the pension system itself. The major question – how to increase payments to the pension fund – remain unanswered. Ukraine's population is ageing. This means that in the next 10-15 years, yet another Ukrainian government will be forced to raise the retirement age in order to limit the number of pensioners and thus avoid a default of the state pension system. The adopted law did not solve main the problems of the pension system but only created an impression of solving them. In the end, this will result in a total crisis of the pension system,” the Gorshenin Institute expert said.

Speaking about expectations of the society regarding the approved pension reform, Zastava noted that they diverged from the government intentions and the capabilities of the Ukrainian economy.

“The research conducted by the Gorshenin Institute demonstrates that two-thirds of Ukrainian society favors the implementation of pension reform. The main expectations harbored by people are a pension increase, a change in the method by which they [pensions] are calculated (which incorporates the number of job experience years, the level of salary, etc.) and a reduction in the retirement age. At the same time, the majority of them prefers a state-funded pension system and does not count on any other source of income except for a state pension. In its turn, this means that society has not yet created demand for structural reform of the pension system. Over half of Ukrainian citizens (mostly pensioners and those who might retire in the next 15 years) are not ready yet to, what we call, manage their pension through, for example, a system of savings and personal pension accounts and continue to shift responsibility for that onto the state” the expert explained.

“For its part, with this reform, the state is trying to overcome a real deficit of the pension fund and cement the basis for a continuing process of Ukraine receiving IMF loans. No-one talks about a pension increase under the current circumstances. At the same time, there is no explanation about real economic tools that can increase payments coming into the pension fund,” Zastava concluded.

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