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**Court starts hearing
«gas case» against
Tymoshenko**

On 24 June 2011, the Kiev Pecherskyy district court started a preliminary hearing of the criminal case against Ukrainian opposition leader and former Prime Minister Yuliya Tymoshenko.

She is accused of abusing power, which allegedly took place when she signed gas contracts with Russia in 2009.

During the hearing, the lawyer of the former prime minister submitted a request to extend for a month the deadline when Tymoshenko has to finish reading the materials of the “gas case.” In response to the request, judge **Rodion Kyreyev** stated that Tymoshenko and her lawyer, **Serhiy Vlasenko**, were believed to have read the materials of the gas case.

The court also turned down a request from Tymoshenko's lawyer to remove judge **Kyreyev**, who has been hearing the case of the former prime minister. The request pointed to his incompetence and selective application of norms of the Criminal Procedure Code.

It is worth noting that according to the mass media, Kyreyev, who is presiding over the trial against Tymoshenko, has been working as a judge for only two years. He was transferred to Kiev from a district court in one of Ukraine's regions nearly three months ago.

For his part, an MP of the Our Ukraine-People's Self-Defense, **Volodymyr Aryev**, said that judge Kyreyev was receiving orders from an MP of the ruling Party of Regions, **Inna Bohoslovskaya**, and the deputy head of the Supreme Justice Council, **Lidiya Izovytova**. “A person [sitting] close to judge Kyreyev saw how he received notes from Bohoslovskaya and Izovytova. We have suspicions that Bohoslovskaya is a representative of those who have ordered the case, while the judge is fulfilling the order,” Aryev said.

During a break in the trial, the EU ambassador to Ukraine, **Jose Manuel Pinto Teixeira**, who was in attendance at the court, noted that the trial of the former prime minister was held in inhuman conditions. “I cannot say whether it is a political issue or not since the process has just begun and we only follow it. However, it is obvious that the trial is held in inhuman conditions. Take a look at my appearance. I am all wet, I have not heard anything and could hardly sit to the end of the trial,” he said.

In response, an MP of the Party of Regions, **Vasyl Kiselyov**, said that it was unacceptable for diplomats to take sides in the conflict over the “gas case.” “If ambassador Teixeira does not like Kiev's climate, he can go to Portugal. If he is hot in the court room, he can watch a broadcast on [the Ukrainian private television channel] 5 Kanal,” he said. “However, it is not a diplomat's business to make political comments in court. He has no right to take any side in the conflict,” the MP of the Party of Regions concluded.

The first hearing of Tymoshenko's case lasted around nine hours in total.

Commenting on how the mass media reported on the proceedings, the Prosecutor-General's Office (PGO) of Ukraine said that the trial of the former prime minister was held openly. A statement issued by the PGO said that representatives of the mass media and public organizations were present during the preliminary hearing of the criminal case, which was broadcast live by the 5 Kanal television channel.

According to Ukrainian Foreign Minister **Kostyantyn Hryshchenko**, this shows that Tymoshenko's trial was transparent.

At the same time, Vlasenko expects that the court will rule to hold a closed hearing of the case after the preliminary stage.

For his part, the former Ukrainian ambassador to Belarus, **Roman Bezsmertnyy**, said that Tymoshenko's trial reminded him of events in Belarus. "What happened today is 98 per cent of what I had observed for a year in Belarus," he said on the eve of 24 June 2011.

In its turn, the parliamentary temporary investigation commission looking into possible state treason by Tymoshenko during the signing the gas contract with Russia in 2009 is going to interrogate Russian prime minister **Vladimir Putin**.

"We will definitely insist on interrogating the prime minister of Russia, Putin, but not in the case of abuse of power, but on the case of state treason by Tymoshenko", a head of temporary commission, an MP on the Party of Regions, Inna Bohoslovska said. According to her, Putin's testimony will be the most important evidence of state treason by Tymoshenko.

According to Tymoshenko, there are plans to drag out the court hearing of the criminal case against her until the next parliamentary election, which is planned for autumn 2010. "This is done in order to deny me an opportunity to be politically involved, so I have no possibility to talk to people," she said. At the same time, Tymoshenko believes that the verdict in her case has already been prepared by the presidential administration.

For his part, European commissioner **Stefan Fule** stated that he was paying careful attention to the case against Tymoshenko and other officials. According to him, the EU is concerned that the process against the former prime minister might be politically motivated.

On 25 June 2011, the Kiev Pechersky district court continued the preliminary trial in the case against Tymoshenko.

During the trial, Tymoshenko's lawyer **Vlasenko** requested that the criminal cases against **Ihor Didenko** and **Anatoliy Makarenko** over the gas contracts signed with Russia in 2009 be combined. He also submitted a request for combining all the criminal cases opened against Tymoshenko into a single one.

Additionally, Tymoshenko and her lawyer requested that the court postpone a hearing of the criminal case over the 2009 gas contracts, explaining that it was launched illegally.

Besides, the lawyer of the former prime minister demanded that a criminal case be opened against **Oleksandr Nechvohlod**, a PGO investigator of high-profile cases. "There are legal grounds for holding investigator Nechvohlod criminally responsible. He consciously took measures to restrict Yuliya Tymoshenko's right to defense and obtained evidence illegally," Vlasenko said.

Tymoshenko's lawyer also requested that the court cancel a written pledge not to abscond for the former prime minister.

The Kiev Pecherskyy district court finished a preliminary consideration of the case against Former Prime Minister Yuliya Tymoshenko on the evening 25 June 2011 and scheduled the examination of the case on its merits for 29 June 2011. The court refused to satisfy any of the appeals filed by Tymoshenko and her defense lawyers apart from allowing one more defense lawyer to take part in the case.

The court also ruled to forward to the Prosecutor-General's Office Tymoshenko's request to initiate a criminal case against the investigator Nechvohlod.

It is also important to note that the hearing room where the litigation took place was overcrowded. Several people felt sick during the litigation because of the heat and stuffy air. Nevertheless, the court rejected an appeal asking to move the litigation process into a larger and more comfortable hearing room.

The correspondents of the Ukrainian news and analysis website Lb.ua reported that thousands of Tymoshenko supporters have been demonstrating for a second day in a row near the court building. Minor clashes with police took place, too.

Just to remind you, on 21 June 2011, Vlasenko said that the US law firm Covington & Burling LLP and a large British financial audit company, BDO, would prepare their report about the "gas case" launched against Tymoshenko. According to him, representatives of these companies will definitely become part of an official group of lawyers which will represent the interests of Tymoshenko in the European Court of Human Rights. Earlier, the press service of the Fatherland party reported that the companies Covington & Burling LLP and BDO had presented in the National Press Club in Washington DC the results of their preliminary report on the facts, which served as a basis for starting criminal prosecution of Tymoshenko by the Ukrainian government. The press release noted that the leading US auditors had confirmed the absence of grounds for persecuting Tymoshenko.

Government will not pay debts that Yedyni Enerhetychni Systemy Ukrayiny (United Energy Systems of Ukraine owes Russian Defense Ministry)

Ukrainian Prime Minister Mykola Azarov has said that Ukraine does not intend to return the debts of the corporation Yedyni Enerhetychni Systemy Ukrayiny (YESU).

Just to remind you, on 17 June 2011, the Ukrainian mass media reported that Russian Defense Minister **Anatoliy Serdyukov** had sent a request to Azarov to consider the issue of paying off the arrears accumulated by the YESU corporation, which had been previously headed by **Tymoshenko**. According to the mass media, the total amount of the arrears which YESU owes the Russian Defense Ministry is 405.5m dollars.

Just to remind you, the head of the parliamentary temporary investigation commission which looked into possible state treason by Yuliya Tymoshenko during the signing of the gas contract with Russia in 2009, an MP on the Party of Regions, Inna **Bohoslovska**, said on 15 June 2011 that the temporary investigation commission received a letter from the Russian Defence Ministry saying that Tymoshenko's private companies (United Energy Systems of Ukraine, the Bosphorus Trade House and others) owed, as of January 2009 (the time when the gas contract was signed) and still owe, the Russian Defence Ministry 405.3 million dollars.

In her turn, Tymoshenko denied that the YESU corporation owed anything to the Russian Defense Ministry.

**Ukrainian
president gives
presentation at
PACE**

On 21 June 2011, Ukrainian President Viktor Yanukovich gave a presentation at the Parliamentary Assembly of the Council of Europe (PACE).

In general, the speech of the Ukrainian president was devoted to Ukraine's chairmanship of the Committee of Ministers of the Council of Europe (May-November 2011). The president also discussed the goals that Ukraine had set for itself, such as protection of human rights, the supremacy of law and democratic development. Additionally, Yanukovich talked about the reforms that had been implemented in Ukraine and the changes that had taken place there over the course of the last year. At the same time, he stressed that "the government team – the president, the cabinet and the ruling parliamentary coalition – continue to work cohesively and effectively."

Touching upon anti-corruption measures, the head of the Ukrainian government stated that "under the cover of opposition status, former high-profile officials attempt to avoid liability for corrupt actions which have nothing to do with political activity."

Additionally, he called on the PACE to evaluate the situation in Ukraine based on objective factors rather than on political statements.

After the presentation, Yanukovich also took questions from PACE members. The first question had to do with the absence of **Tymoshenko**, who had been invited by the party members of one of the factions in the assembly to Strasbourg. As it was previously reported, she had been banned from traveling abroad by the PGO. Responding to this question, Yanukovich said that he was not the one who made any decisions regarding this issue since he was no prosecutor. Also, according to him, one should differentiate between fighting corruption and political persecution. Yanukovich stressed that he was interested in an unbiased process like no-one else. The remaining questions touched upon the use of the red Soviet flag, the Chernobyl nuclear power plant, etc.

It is worth noting that during the presentation by the Ukrainian president, the Ukrainian opposition staged a protest near the building of the assembly.

Later, commenting on his speech at the PACE, Yanukovich said that he had not said anything new in Strasbourg, but had only talked about the accomplishments that Ukraine had made since he visited Strasbourg a year ago, and about the promises that had been fulfilled.

At the same time, discussing the president's trip to Strasbourg, his advisor, **Hanna Herman**, said that the opposition exaggerated the interest that European politicians had in Tymoshenko's criminal problems. According to her, the questions regarding Ukrainian politicians who have criminal problems is a topic that interests no one in Europe.

The head of the Ukrainian parliamentary delegation in the PACE, PACE deputy president and an MP of the Party of Regions, **Ivan Popescu**, believes that during the PACE meeting, only partners of this party were concerned about the issues pertaining to Tymoshenko.

Just to remind you, Tymoshenko could not visit Strasbourg since she has signed a written pledge not to abscond. The deputy head of the Fatherland party, the former deputy prime minister for the European integration, **Hryhoriy Nemyrya**, could not take part in the PACE session either since he had been summoned to the PGO for

**Europe criticizes
Ukrainian government
and demands end to
political persecution**

questioning over a fresh case launched against Tymoshenko.

On 23 June 2011, the European People's Party (EPP) adopted a declaration regarding the Ukrainian opposition.

In particular, the EPP issued criticism regarding the actions of the Ukrainian government and demanded that former Ukrainian Prime Minister **Tymoshenko** be allowed to travel. Additionally, the EPP demanded that former Interior Minister **Yuriy Lutsenko** and former Deputy Defense Minister **Valeriy Ivashchenko** be released.

The Party of Regions believes that the EPP's critical statement addressed to the Ukrainian government reflects the own opinion of individual political forces in the EU.

"The statement does not mean that EU President **Herman Van Rompuy** and President of the European Commission **Jose Manuel Barroso** know about it. I believe that if they found out about it, they would be hugely surprised," MP of the Party of Regions **Leonid Kozhara** said.

"During the visit of Viktor Yanukovich to Brussels, absolutely different statements were made. Those were statements of support," he added. According to him, "the demand issued by the EPP that a criminal case against Tymoshenko be stopped is interference in Ukraine's domestic affairs."

In his turn, the director of the Ukrainian Foreign Ministry's information department, **Oleh Voloshyn**, said that the EPP should not "turn itself into a club that sympathizes" former Prime Minister Tymoshenko.

Responding to Voloshyn's statement, the Secretary-General of the EPP, **Antonio Lopez-Isturiz White**, said that the Ukrainian Foreign Ministry had no idea about the EU politics. "If the Ukrainian Foreign Ministry thinks that the EPP, which is the largest party at the level of the EU, is a fan club, it demonstrates how little it understands about EU politics and how little it cares about the EU and European integration," he tweeted. "I expected the ministry to be more serious," he added.

Commenting on White's reaction, Voloshyn responded that the Ukrainian Foreign Ministry believed that the EPP should support not only former Prime Minister Tymoshenko, but Ukraine's bid for the integration into the EU, too.

"I would really like in what he [White] and other representatives of the EPP said either on Tweeter or in any other form that they at least support cancellation of visas for Ukraine during Euro-2012. We have not seen any of this yet. One should be very absent-minded not to see that the EPP's abbreviation appears in the Ukrainian mass media only in connection with the name Tymoshenko," Voloshyn concluded.

**Russia is ready to give
discount on gas price
only on condition of
Naftohaz and Gazprom
merger**

The delegations of Ukrainian gas company Naftohaz Ukrayiny and Russia's Gazprom met for talks on 21 June 2011.

Media reported with references to sources in the Ukrainian Ministry of Energy and the Russian gas monopoly that at the next round of negotiations to discuss the conditions of gas supply the Russian party has said that the domestic price for Ukrainian corporate consumers may be lowered in case of a merger between Naftohaz and Gazprom or setting up a bilateral joint venture to manage the Ukrainian gas transport system. "If a joint venture is set up, the gas price will be calculated based on the formula: the export price minus the cost of transit and the export duty. This means that the price for Ukrainian companies will be 40 per cent

Russian Prime Minister Putin said for his part that before the meeting with Yanukovych he had a telephone conversation with Ukrainian Prime Minister **Azarov** to discuss all the pending issues for a sitting of the Interstate Commission.

According to reports in the media, citing sources in Russia, Putin's visit took place at the invitation of the Ukrainian side: allegedly, "Ukrainians have come to a point at which they are ready to come up with a sort of adequate proposal in exchange for a discount on the gas price". Also, Ukrainian media reported, quoting sources in the Ukrainian government, that in the course of Putin's visit the issue of Ukraine's associate membership of the Customs Union between Russia, Belarus and Kazakhstan was discussed. Another issue that might have been discussed at the meeting was the setting up of a joint venture to manage the Ukrainian gas transport system.

Ukraine expects to continue cooperation with International Monetary Fund

The International Monetary Fund (IMF) will continue to work actively with Ukraine based on the cooperation programme, the Ukrainian Cabinet of Minister's press service has said. According to a report from the press service, this conclusion results from consultations that the Ukrainian delegation consisting of Finance Minister **Fedir Yaroshenko** and Energy and Coal Mining Minister **Yuriy Boyko** had with the IMF Acting Managing Director **John Lipsky** in Washington (USA) on 17 June 2011.

"We gained understanding and support from the IMF side and what is more, we confirmed that our cooperation programme works", Finance Minister Yaroshenko said after the meeting. He also said that the IMF positively assessed the Ukrainian Parliament's approval of pension reform in the first reading.

Later, Prime Minister **Azarov said**, in his comments on the negotiations, that he expected the arrival of the IMF mission to proceed with the review of the stand-by cooperation programme in September 2011. Azarov also said that during the IMF mission's visit all the pending issues will be discussed, including raising gas prices for private consumers.

Azarov said, however, that the most important aspect for Ukraine now is that cooperation with IMF shall not result in higher inflation. "...If the IMF wants a stable situation in Ukraine, and the essence of our cooperation programme is, first of all, stability in Ukraine, we have to think before we make any steps based on our programme", Azarov said.

It is important to note that Ukrainian media reported, quoting sources informed of the negotiating process, that the talks in Washington had not brought any desirable results. In particular, the IMF required from the Ukrainian delegation to substantiate the need for amending the state budget and also to present the Ukrainian delegation's arguments against raising gas and heating prices for the general public. The IMF may resume crediting Ukraine only after receiving these substantiations and after pension reform is fully approved. The media reports also say that the Ukrainian government has to satisfy the IMF conditions before mid July 2011 to receive another IMF tranche, as the IMF board needs time to review the loan request at its meeting planned at this time. If Ukraine fails to satisfy the IMF requirements by this time and the technical mission does not submit the tranche application to the IMF board (the Ukrainian government expects to receive three billion dollars), the cooperation programme between the IMF and Ukraine will formally cease.

We recall that Prime Minister Azarov said at the meeting with the World Bank's

lower than that for European consumers”, the media quoted a Ukrainian official from the Ministry of Energy as saying. Gazprom representatives also announced at the negotiations that the price of natural gas for Ukraine will increase to 400 dollars per 1,000m.cu. as early as before the end of 2011.

A reminder that Gazprom Deputy Board Chairman **Aleksandr Medvedyev** said on 21 June 2011 that the price of gas for consumers in Europe on long-term contracts in December 2011 will rise to 500 dollars per 1,000m.cu. Also, spot prices, which now are 15-17 per cent less than contract prices, will become similar to contract prices.

Experts believe that by winter 2011 Ukraine may lose some transit volumes of Russian gas.

Gazprom has already started the contracting campaign for 2012 taking into account the delivery of gas to European countries using the Nord Stream pipeline. “Judging from the Russian gas company’s ongoing negotiations, it becomes apparent that Ukraine may not receive additional volumes of transit gas but also lose 10bn.m.cu. of gas which is not transported through its gas transit pipelines”, the senior analyst at the Troika Dialogue investment company, **Valeriy Nesterov**, said.

A reminder that, Ukrainian President **Viktor Yanukovych** considers that the price of Russian gas for Ukraine as of today shall not exceed 200 dollars per 1,000m.cu. According to Yanukovych, the existing gas contract is not correct and not fair for Ukraine.

Ukrainian gas transport system is being prepared for handover to Gazprom

The Ukrainian gas transport system is planned to be removed from Naftohaz Ukrayiny.

The National Electricity Regulatory Commission of Ukraine asked the Ministry of Energy and Coal Mining Industry of Ukraine on 23 June 2011 to remove the Ukrainian gas transport system from Naftohaz Ukrayiny and to transfer it to the Ukrtransgaz gas transport company.

“Naftohaz Ukrayiny’s work as the operator of the gas transport system contravenes the law ‘On liberalization of the gas market’. Also, it is not in line with European legislation”, a member of the National Electricity Regulatory Commission, **Serhiy Dunaylo**, said.

Formally this move is necessary to satisfy the EU requirements from financing the modernization of the gas transport system. However, experts and media consider that the real reason behind this transfer is to make the gas transport system ready for a possible joint venture with Gazprom.

Russian Premier Vladimir Putin meets Ukrainian President Viktor Yanukovych

An informal meeting between Russian Premier Putin and Ukrainian President Yanukovych took place in Crimea, the Ukrainian president’s press service has said.

Earlier the Ukrainian Foreign Ministry did not confirm the information about Putin’s visit to Ukraine on 25-26 June 2011.

It is noteworthy, that Putin arrived in Ukraine on a private visit. Yanukovych and Putin discussed a number of issues regarding relations between Ukraine and Russia. In particular, the Ukrainian President said that the meeting with the Russian Prime Minister takes place ahead of the sitting of the Russia-Ukraine Interstate Commission. “We have issues to discuss. The Cabinet reported to me that there is a lot of material processed at the level of sub-commissions”, Yanukovych said.

**World Bank worsens
inflation expectations
but improves GDP
forecast for Ukraine**

representatives on 17 June 2011 that gas tariffs will not be raised in the near term.

The World Bank has lowered the inflation forecast for Ukraine from 10.7% (forecast as of December 2010) to 11.4%.

However, the gross domestic product (GDP) growth forecast rate for Ukraine as of the end of 2011 was raised from 4% (forecast as of December 2010) to 4.5%.

A correspondent of the LB.UA web-site reported that the new forecast of macroeconomic indicators was announced by the World Bank senior economist, **Ruslan Piontkovskiy**, at a press conference on 21 June 2011. According to Piontkovskiy, the World Bank's forecasts will be adjusted based on tariffs for communal services and the price of gas.

Speaking about inflation expectations as of the end of 2011, the Ukrainian deputy prime minister and minister of social policy, **Serhiy Tihipko**, said that: "if we manage to keep inflation below 10 per cent this year, I am certain that this will be a big success for us".

Meanwhile, representatives of the National Bank of Ukraine (NBU) say that lowering inflation rate and increasing GDP growth is the result of the Cabinet's enhanced cooperation with the NBU.

"One of the outcomes of a better coordination with the Cabinet at different levels and a direct dialogue between the heads of our organizations was 'the divergence of trends' in May: the inflation rate falls while the GDP growth rate improved", the head of the group of advisors to the NBU chairman, **Valeriy Lytvytskyy**, said on 22 June 2011. Commenting on the changes to the state budget (President Yanukovich signed the law on changes to the Ukrainian state budget on 17 June 2011 raising budget income by 1.76 billion dollars to 37.5 billion dollars and increasing expenses by 1.43 billion dollars to 42.3 billion dollars), Lytvytskyy said that Parliament and the Cabinet had approved a mature decision on the distribution of the state budget's additional income. "We do not expect that allocating a part of additional income to improve social standards will accelerate inflation. I think it was the right decision and it will improve economic growth", Lytvytskyy said.

Just to remind you, at the beginning of June the mass media reported that NBU head Serhiy Arbuzov has sent a letter to Prime Minister Azarov. In his letter, Arbuzov provided a negative evaluation of the actions of the government in the sphere of assessing the level of inflation in Ukraine and its negotiations with the IMF.

The document stated that according to the estimates of international and Ukrainian experts, it is unlikely that Ukraine's inflation will not exceed 8.9 per cent, as the government has forecast. "The current unrealistic parameters of inflation cast doubt on the entire set of macroeconomic indicators for both the current and next year. Accordingly, they lead to lower trust in the overall economic policy of the government," the letter said.

A reminder that the Ukrainian state budget for 2011 assumes GDP growth at 4.5% and inflation at 8.9%.

The Yuliya Tymoshenko Bloc: changes to state budget cancel social payments and quotas

The faction of the Yuliya Tymoshenko Bloc in Parliament has stated that changes to the state budget will significantly limit payments to Ukrainians. First of all, the limitations are applied to payments made to those who suffered from the Chernobyl accident, children of war and retired servicemen.

"From now on, the provisions of the laws that guaranteed social protection to these categories of people will be applied only following a resolution by the Cabinet of Ministers and only if funding is available", a member of the parliamentary committee for social policy and labour, an MP of the Yuliya Tymoshenko Bloc, **Andiy Pavlovskyy**, said.

Oleh Tyahnybok: members of government do not finance the Freedom Party

The leader of the right-wing radical all-Ukrainian Freedom Association, Oleh Tyahnybok, has rebuffed information that his party was financed by members of the government.

"Why don't you even suppose that our party is based on ideological principles? And people come to us for ideas rather than for money. When thousands of people take part in rallies organized by the Freedom Party, our opponents start calculating how much this costs. But those who carry our flags are not paid for this, Tyahnybok said.

Opposition demand veto on law on export of Ukrainian gas

The faction of the Yuliya Tymoshenko Bloc in Parliament has demanded the imposition of a ban on the law allowing export of gas extracted in Ukraine that Parliament approved on 17 June 2011.

"This law means that the gas extracted in Ukraine will become a source of superprofits for business tycoons, as it is more profitable to sell the gas abroad at world prices of 400-500 dollars per 1,000m.cu. rather than sell it to consumers in Ukraine at domestic prices. Meanwhile, expensive imported gas will be used to satisfy the needs of Ukrainians and the country's communal services", the YTB statement says. The authors of the statement add that "Ukraine has sufficient deposits and volumes of extraction of own natural gas to fully satisfy the need for cheap gas of the general public and partially the needs of communal services protecting them from high world prices".

Ukrainian Constitutional Court rules new powers of president, Higher Council of Justice remain unchanged

The Constitutional Court of Ukraine ruled on 23 June 2011 that the provisions of the law "On the judicial system and status of judges" approved on 7 July 2010 are compliant with the Constitution of Ukraine. Moreover, the Constitutional Court also ruled to stop verifying for compliance with the constitution the provisions of the law "On the High Council of Justice".

Earlier, 54 members of parliament appealed to the Constitutional Court asking for clarifications regarding compliance with the Constitution of some provisions of the laws of Ukraine "On the judicial system and status of judges" and "On High Council of Justice" with later amendments (in particular, those provisions of the laws dwelling on the powers of the president, High Council of Justice and State Judicial Administration of Ukraine in regard to organization of courts).

We recall that on 16 June 2011 the Constitutional Court ruled that the extension of powers of the High Council of Justice, approved in May 2010, conformed with the Constitution.

Chairman of People's Republic of China Visits Ukraine

Delegation of the People's Republic of China led by Hu Jintao arrived on a three-day visit to Ukraine on 18 June 2011.

The Chairman of the People's Republic of China, Hu Jintao, had a personal meeting with Ukrainian President Viktor Yanukovych. Also, another meeting in

an extended format between the leaders of the two countries took place on 20 June 2011.

Ukraine and Chine signed a number of agreements based on the results of negotiations.

In particular, an interstate agreement was signed on providing the Ukrainian government with a non-refundable grant in the amount of 12.3m dollars.

Also, a memorandum was signed between the Ukrainian Ministry of Economic Development and Trade and Chinese Ministry of Commerce on a regular exchange with a tentative list of export and import goods in bilateral trade.

Furthermore, another memorandum of understanding in the sphere of energy was signed between the Ukrainian Ministry of Energy and Coal Mining and Chinese State Energy Administration.

The memorandum identifies the main areas of cooperation in the sector: joint efforts in the implementation of projects in the oil and gas business, exchange of information on energy installations in the two countries planned to be built or modernized; cooperation in the area of peaceful use of nuclear energy based on existing agreements.

It is worth mentioning that Hu Jintao's visit is the first visit by a Chinese leader to Ukraine for the last 10 years.

**Foreign Ministry:
Ukraine moves to EU
closer than expected**

The Ukrainian Foreign Ministry has said that significant progress was achieved in relations between Ukraine and the EU.

"For the period which has passed of slightly more than one year, we made progress in our relations with the EU that one and a half years ago was hardly expected, even by the biggest optimists", Ukrainian Foreign Minister Kostyantyn Hryshchenko said.

**Ukrainian
parliamentary
speaker: constitution
is out of date**

Ukrainian Parliamentary Speaker Volodymyr Lytvyn has said that the Constitution of Ukraine did not meet the challenges of the modern world.

"Speaking in broader terms, the frameworks and borders of the compromise reached at that time (in 1996), do not work today in many cases. The world has changed, it changed dynamically. The disposition of forces has changed. The emphasis in the development of mankind have shifted, and this requires changing the approach to our fundamental law and approving mature decisions", the parliamentary speaker said.

Commenting on setting up the Constitutional Assembly, Lytvyn said: "Judging from the developments of events, this is going to be another rally where the participants will be offered a respective draft of the constitution developed by a narrow group of specialists". He added that, in his opinion, Ukrainians are not now concerned with changes to the Constitution.

A reminder that President Viktor Yanukovych set up a scientific and expert task force led by former president **Leonid Kravchuk** in February 2011 to prepare the Constitutional Assembly. The Assembly shall develop amendments or a new revision of the Constitution of Ukraine.

**Naftohaz Ukrayiny to
buy several drilling
platforms****The Ukrainian state-owned oil and gas trader Naftohaz Ukrayiny intends to purchase several drilling platforms to develop the Black Sea shelf.**

"We are not talking about one drilling platform. We are preparing documents for a second one. A third one will be, too," the Naftohaz Ukrayiny deputy chief, **Vadym Chuprun**, said during an interview with the Ukrainian private channel 5 Kanal. According to him, the drilling platform that has been purchased in Singapore will be tested at the beginning of 2012.

Just to remind you, at the end of May 2011, weekly newspaper "Zerkalo Nedeli" reported that the Chornomornaftohaz state-owned company, which is run by the Energy and Coal Industry Ministry, has purchased a marine drilling facility through intermediaries for 400m dollars. Citing open sources, the authors of the article said that the actual price of the facility was estimated at 250m dollars.

In his response, Energy and Coal Industry Minister **Yuriy Boyko** said: "Someone has ordered this. We asked the Security Service of Ukraine [SSU] to find out who has ordered it. This is 100 per cent ordered." The minister also explained that the price of the drilling facility might have included ships and aircraft. "In reality, the price of the facility might be 250m dollars, but it does not include either the cost of rescue helicopters or ships, while they cost extra. It does seem telling for an outsider. On the one hand, there is 400m dollars and, on the other hand, there is 250m. They forgot to mention about all the spare parts and additional equipment," Boyko said.

However, "Zerkalo Nedeli" reported that the purchase of the drilling facility was carried out with an advance payment of 80 per cent. The auctioning documentation lists only the facility without additional transportation equipment. Chornomornaftohaz confirmed that the drilling facility was constructed on the shipyards of the Singaporean company Keppel.

**Ukraine's investment
climate favorable –
Rinat Akhmetov****The owner of the System Capital Management (SKM) company, an MP of the Party of Regions, Rinat Akhmetov, believes that the investment climate in Ukraine is favorable.**

"I would like to say that we are moving in the right direction. Currently, Ukraine has a favorable investment climate," he noted. According to him, SCM plans to invest 10bn-12bn dollars in Ukraine over the next five-seven years.

At the same time, the president of the European Business Association, **Tomas Fiala**, believes that "the all-encompassing corruption and private interests do not allow business to work, invest and create jobs" in Ukraine.

Just to remind you, Forbes magazine estimated that Akhmetov's net worth had almost tripled – from 5.2bn dollars to 16bn – in 2010. Experts and the mass media believe that the Ukrainian oligarch belongs to the closest entourage of Ukrainian President Viktor Yanukovich.

Gorshenin Institute conducted a round table called “The relations between Ukraine and Russia after Ukraine signs the FTZ agreement with the EU”, where experts discussed the future of Ukrainian-Russian relations in the event of Ukraine signing the Free Trade Zone Agreement with Europe.

The President of expert consulting firm “NEOKON”, Mikhail Khazin, thinks that if Ukraine enters a Free Trade Zone with the EU it can lose the Russian market and a number of its industries. “Russia will replace Ukrainian goods with the help of the Customs Union. Ukraine will not receive access to the EU markets, because no one wants it there”, he said. He cited the example of Bulgaria, which reduced the volume of agricultural production within the framework of the EU, in particular, export of vegetables. “Ukraine is being converted into an agricultural appendage to the EU. If Ukraine joins the Customs Union it will have good possibilities to develop high technology industries”, the expert added. also believes that the issue of Ukraine integrating into the Customs Union or Free Trade Zone with the EU is primarily economic. “It is a political issue for the EU. For Ukraine - it is economic”, he said, suggesting that only countries integrated into global markets will be able to survive during future crises. “The Baltic States are an example of what will happen to those countries that do not join markets with sufficient numbers of consumers”, he stressed.

The Head of the Group for Economic policies of the Russian Embassy in Ukraine, Aleksei Urin noted, in his turn, that the results for the first quarter of 2011 show that Ukrainian exports to Russia accounted for 4.2 bn dollars, up 63% compared with the same period last year. “It is worth mentioning that 37% of all Ukrainian exports to Russia were machinery – equipment and vehicles. It should be noted that such structure of Ukrainian export is distinctive only for trade with Russia. The structure of export to other countries is completely different and does not have such an amount of high technology products”, Mr. Urin informed.

According to **the Administrator of Policy Department of the European Parliament (Brussels), Inna Kirsch**, if Ukraine refuses to sign the agreement on Free Trade Zone (FTZ) with the EU it will lose prospects of becoming a fully-fledged member of the EU. According to her, while discussing the pros and cons of joining the FTZ, it is often forgotten that such joining is part of the EU association agreement. “In the future it will allow Ukraine to count on full membership in the EU. Yes, this is not a matter of days or even years, but it will become more real if Ukraine signs the FTZ agreement”, the expert noted. At the same time, she emphasized that Ukraine entering Customs Union with Russia, Belarus and Kazakhstan “will close EU doors for Ukraine”. Mrs. Kirsch believes that membership of the FTZ will allow Ukraine to modernise its economy and industry. In her opinion, the agreement on FTZ can be signed before the summer of 2012. “All disputable issues concerning FTZ have to be solved before the Ukraine-EU summit scheduled for December this year”, she added.

Party of Regions MP Vasyl Gorbali is convinced that negotiations of Ukraine about integration to the FTZ with the EU and Customs Union should be deprived of a political component. “Post-crisis realities suggest separating politics from economy in negotiations”, he said. According to the MP such negotiations must be pragmatic.

According to **the Head of Konrad Adenauer Foundation office in Ukraine, Niko Lange**, Ukraine's course towards European integration suggests that Russia cannot intimidate it. “A FTZ does not imply Ukraine breaking off relations with Russia. Unfortunately, this myth exists and is supported in every possible

way by politicians. But this is not true. Germany is a perfect example”, he noted. According to the expert, Germany, a member of the EU and NATO, has friendly relations and economic cooperation with Russia. “We need to talk not about the myths but about the global sense of European integration. First of all, it is a tool to answer key questions. The main question for Ukraine is not whether it is a member of some club, but whether the country is competitive in global competition”, he stressed. Mr. Lange is sure that the choice between FTZ and CU is not “status quo fixation”. “It is a tool to modernize the economic standards of Ukraine”, the expert thinks. In his opinion, there is no need to speculate on Ukraine losing some markets: either European or Russian. “There is positive balance in a third market. And Ukraine can take advantage of it”, he thinks.

Our Ukraine-People's Self-Defence Bloc MP Irina Gerashchenko thinks that European integration should unite Ukrainian society in the same way it has already united the authorities and opposition. According to her, the issue of Ukrainian European integration, in particular the preparation to signing the FTZ agreement with the EU is a rare example of the continuity of Ukrainian official policy. “In this regard I would like to remind you that there is European Integration Committee in the Verkhovna Rada, working on bringing Ukrainian legislation into line with European standards. For many years this committee was one of the least popular in the Ukrainian Parliament compared with the Budget or Banking committees, where a lot of MPs wanted to work. The ruling party until the recent time was represented only by one MP, now there are 5 MPs from the Party of Regions in the committee and this indicates the reconsideration of the importance of European integration for our country”, Mrs. Gerashchenko admitted and added: “It is essential that European integration unites Ukrainian society as well. Unfortunately, a lot of people in Ukraine do not realize now what the FTZ can give to Ukraine – the pros and cons of this integration for our country. There is no state information policy on this matter, and as a result people do not understand the initiatives of the authorities on European integration. It is a significant flaw on the part of the authorities”. Summing up, the MP noted that 2011 will be decisive in terms of European integration processes and the fact that both opposition and the authorities express a single position on the issue allows a positive outcome for Ukraine to be expected.

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