The Ukrainian Political and Economic Readiness for Integration into the European Union:

Lessons learned from Poland in 1997

by

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List of Abbreviations:

EBRD- European Bank of Reconstruction and Development
EIU- Economist Intelligence Unit
EU- European Union
FDI- Foreign Direct Investment
GCB- Global Competition Barometer
GDP- Gross Domestic Product
ILO- International Labour Organization
IOSCO - International Organization of Securities Commission
PM- Prime Minister
PPP- Purchasing Power Parity
UNICEF- UN Children's Fund
VAT- Value Added Tax

A. Introduction

1. Background and History

After centuries of bloody warfare, European countries decided that the only way to create a lasting peace is to create common institutions, eventually leading to the integration of the European countries into a union. The history of the European Union began in 1950 with a speech by the French Foreign minister, Jean Monnet. In his speech, Jean Monnet proposed to integrate various industries in Europe. This project was a great success, which eventually led to the Treaty of Rome, creating the European Economic Community. In 1967 the European Parliament and the Council of Members were created. Finally in 1992, soon after the break-up of the Soviet Union the Treaty of Maastricht was signed. The treaty truly created a union where members cooperate in many ways including judicial policy, commercial policy and even foreign policy. Indeed this union is in many ways a success as it is extremely unlikely, for example, that a war between France and Germany would occur today.

The original integration was focused on commercial aspects. However, the motivation of the large EU countries to become political players became a focus as well. France and Germany, the two original large countries, have thus used this arena to voice their opinions in environmental, commercial and agricultural policies. In the last ten years a motivation to bring democracy through inclusion has emerged. The European Union has used political pressure through the possibility of entrance to reform countries like Romania, Turkey and some of the central European countries that have been integrated into the EU. One such example surfaced in recent news where the European Union pressured Turkey to drop the case against Orhan Pamuk, who faced charges of insulting "Turkishness."[1]

In 1993 the European Council in Copenhagen drew up the criteria under which a country may join the European Union. These criteria are known as the Copenhagen criteria. The criteria are split into three main categories such that a country has to have the proper political and economic qualifications as well as the ability to uphold all of the EU membership duties. The EU membership duties are called the Community acquis and are contained in an eighty thousand-page document. The Copenhagen criteria were further elaborated through the opinion papers written about the acceding Eastern European countries at the start of integration negotiations.

2. Hypothesis

This paper attempts to examine Ukraine's readiness to integrate into the EU in the light of the first two accession criteria: political and economic qualifications. The EU opinion papers and Poland's political and economic readiness in 1997 are used as benchmarks for what the EU might require from Ukraine in order to accede.

The EU opinion papers outline what is required of a country that wishes to integrate. The hypothesis of the paper is that although Ukraine's accession seems possible at first, when compared to that of Poland, which is a close cousin in culture and history, the accession is in fact unlikely in the near future due to Ukraine's difference in demographics, administrative and judicial corruption and an outdated infrastructure.

[1] "Court drops Turkish writer's case." BBC News. Posted January 23rd 2006. Viewed February 27 2006. <http://news.bbc.co.uk/2/hi/europe/4637886.stm>

3. Importance of Ukrainian integration

The crux of this paper is about the possibility of a future integration of Ukraine into the EU. The relevance, which will be further elaborated in the paper, of Ukraine comes from its geography, politics, history, culture, natural resources, agriculture and other factors. Ukraine's addition into the EU would greatly alter the size and geo-political importance of the EU.

Such integration would also be a triumph in the European Union's movement of bringing democracy through inclusion. With the slow westernization of Eastern Europe, and especially Ukraine, Ukrainian integration would be seen as a great triumph for the movement. Ukraine still has a plethora of problems left over from the Soviet leadership. Indeed, the Orange revolution, a large protest held in 2004 was the beginning of the end for the old Soviet corrupt ways. Integration into the EU will solidify the model view of Ukraine as a country gone from deep problems left over from the Soviet Union to a true European country.

4. Foundation of the comparison

The main methodology of the paper is to compare the countries of Poland and Ukraine. However, before beginning such a comparison, a basis for comparison is needed. A whole section of this paper is devoted to showing why such a comparison is valid in the first place as well as the validity of aspiring to the integration of Ukraine into the EU. A separate section will also outline the major points of the EU opinion papers that shed light on the Copenhagen criteria, thus creating a foundation on which to compare the two countries. The paper is in fact organized in similarity to these criteria.

The basis of comparison section shows the reasoning behind why Ukraine should be considered for the EU at all. The Shevchenko Scientific Society of Canada, a Ukrainian society, held a relevant conference in 1999. The conference collected papers on the progress of Ukraine. One such paper by a professor at City University of New York, Anna Procyk, outlines that Ukraine's literary elite sees itself as a European nation, slowly asserting its own identity to separate from the addiction to Russia. Furthermore, Ukraine is very close to the country of comparison not just in its "Europeannness" but also in the size of the country. Poland is the largest recently integrated country, while Ukraine is the largest country in the continent of Europe besides Russia. The history of Ukraine was also closely intertwined with Poland as it was under Polish rule for more than 300 years.

Finally problems with the comparison, such as the recent political crises, difference in geopolitics and polls taken from the Ukrainian population.

5. Conclusions

The paper analysis shows that although Ukraine is mostly adequate in the economic arena, politically there are still significant problems to Ukrainian integration into the EU. Ukraine needs to improve its corruption problem. Specifically, judicial corruption seems to be significantly affecting the country. Not only is this type of corruption hurting political institutions, it is hurting the business environment as business laws are not enforced correctly. Another political obstacle seems to be the significant demographic Russian-Ukrainian split within the country. The demographic split may make any integration into the EU difficult due to the unwillingness of the

Russian minority, as well as the Ukrainians that sympathize with that minority, to participate in the integration. External Russian influence may also be a problem. This, however, is a general problem with the comparison. However, the purpose of this paper is to analyze the internal differences between Poland and Ukraine. Finally, the one serious problem presented in the economic arena is the lack of development and restructuring in the infrastructure (telecommunications, railways, roads).

Thus, the main obstacles to integration found in the paper are the judicial corruption and its consequences, the Ukrainian-Russian demographic split and the need for infrastructure development.

B. The EU Criteria on Country Integration- a Summary of the Opinion Papers

The following section outlines the criteria decided upon by the European Union in 1993 and further elaborated through the Agenda 2000 opinion papers that evaluated the acceding countries[2]. The section analyzes the Lithuanian and Polish opinion papers to outline the *general* criteria. The Lithuanian paper was picked, as Lithuania was one of the worst prepared countries during the start of the negotiations to the EU according to the EBRD transition indicators. As such the EU might have shown more demands for Lithuania. Thus, the EU Lithuanian opinion paper may show more of the general demands given to a country.

The criteria show where eastern European countries have to be in development in order to be considered for accession. Many of the countries did not have full Western values. Yet these

[2] European Union. Agenda 2000 - Commission Opinion on Poland's Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/poland/index.htm>

countries were considered for accession anyway. Thus, the papers show the limit to which a country can be unqualified yet still be considered. The comparison of Poland during the start of negotiations to current state of Ukraine will not be done exhaustively. *However, certain key areas of political and economic readiness will be explored in this paper*. The European Commission used a questionnaire sent to Polish authorities, bilateral follow-up meetings, reports from Member States' embassies, international organization and NGO assessments, and other resources to arrive at its conclusions.

1. Political requirements

The first major criteria outline the political requirements needed for the accession. Stability of democratic institutions is an essential political requirement. A country wishing to integrate into the EU has to have the basic democratic institutions in place. These include the legislative, executive and judicial powers as well as any other powers related to these three. Each country opinion paper outlines the structure of the country government as well as the function of each major institution such as the Parliament or the cabinet of ministers.

Free and fair elections of the major governmental powers as well as the laws of the government that uphold those elections are especially important. The opinions also highlighted the following about acceding countries' legislative bodies: "Its powers are respected and the opposition plays a full part in its activities."[3] Furthermore the criteria clearly indicate a need for governmental

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[3] European Union. Agenda 2000 - Commission Opinion on Poland's Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/poland/index.htm> AND

bodies to recognize the limits of their powers and the need for cooperation. The importance of cooperation between local and national authorities is one such example. With the background of past Soviet influence the papers highlight the importance of ensuring the lack of such influence in the future. In many of the acceding countries “lustration” acts were adopted forbidding people who worked for Soviet security organizations or those with political influence during the Communist regime to work in the government. Furthermore, the paper highlights current efficiency of local authorities such as the police and the security branches. Corruption is a very important issue highlighted by the opinion papers.

The second major political requirement is the rule of law. The freedom and independence of the judiciary is essential to this requirement. The appointment of Judges has to be independent from undue influence by other branches or individuals. Furthermore the opinion papers highlight the importance of efficiency of the courts. The judges have to have sufficient qualification. The time it takes for a case to be decided is also important.

Finally, the last major political requirement is about the human rights and protection of minorities. The European Union is very direct in its intention to spread the observance of certain human rights held inviolable by Western Europe. This is shown through the many international conventions and treaties that guarantee such rights. The opinion reports note whether the country has ratified the European Convention for the Protection of Human Rights. An individual in Poland, which is a signatory to the convention, can address the European Court if his or her rights have been violated under this convention.

European Union. Agenda 2000 - Commission Opinion on Lithuania’s Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/lithuania/index.htm>

Among the basic human rights are various civil and political rights. The abolition of the death penalty as well as the legal access to courts and the guarantee of a lawyer are reviewed. The right to vote and the ability to vote are reviewed as well. The papers go into detail about any problems one might encounter regarding these rights. Thus, it is not only the laws that are reviewed but also the actual practice. The list of rights is similar to that of the American Bill of Rights. The following are the other rights included in the opinion papers:

- Freedom of association - an evaluation of the non-profit sector is included.
- Freedom of assembly.
- The right not to be arrested.
- Freedom of expression – The freedom of journalists, protection of sources, the activity of the private television sector versus the dominance of the public sector and any other relevant aspects are included.
- The right of ownership and a review of any expropriation – A very relevant topic to Ukraine in regards to the recent talks of reprivatization of major factories in Ukraine.
- Any cases of inhuman and degrading treatment - this is tied to the ratification of the European convention on human rights. Attention to prison treatment is given in the Lithuanian paper.
- The right to a minimum income for survival.
- The right to strike.
- Free access to education and freedom of religion.

- Finally, any laws regarding minorities and their representations are mentioned in the opinion papers.

2. Economic requirements

The European Council in Copenhagen noted the following in its criteria about the economics of the acceding country: “the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the union.” The economic part of the country opinions focus on how far the country has separated from the Soviet Union regime economy and achieved western liberalization.

One of the key measurements of reaching market economy status is joining the World Trade Organization. The opinion papers indicate where in the process the countries stand. The basic structural facts are also indicated. The general section on economic readiness can be split into structural (relating to the general economy and public and private sectors), sectoral (relating to specific sectors in the economy) and regional readiness. Furthermore a final section is presented on the readiness to cope with joining the union.

The opinion reports note various structural aspects of the country such as FDI, fiscal responsibility, the makeup of the economy and others. Stability of the economy is quite important and is represented through outlining any previous shocks to the economy, currency stability, public finances and the labor market. Economic stability is important especially after the Russian default of 1998, which sent small shockwaves throughout Eastern Europe. The extent of privatization is also important as a test for the extent of change from the days of the

Soviet Union. Trade and price liberalization further shed light on the existence of a market economy. Finally the interplay between the private, public and grey sector is explored.

Sectoral overviews shed light on certain important sectors in the economy. The European Union clearly puts great importance on agriculture and industry. The agricultural subsidies are a large part of the EU budget and the acceding country needs to show if its agricultural sector is able to compete. Industry is particularly important to Ukraine, as Ukraine's non-precious metals were more than 30% of its exports in 2004[4] and Ukraine's industry makes up 30% of Ukraine's GDP[5]. The stability of the financial sector and the laws regarding banks and securities, which often affect economic stability, are also reviewed.

Finally the section on the ability to cope with competitive forces highlights the extent the country's economy is already in sync with the EU as well as the ability of the economy to adapt to the new economic requirements. Trade integration as well as the ability of state enterprises to adapt is noted. The workforce education and level of skill is also noted. Furthermore, the attitude of the country towards Europe is mentioned. Finally, any other related issues such as an elaboration of FDI or the banking sector are noted.

3. The ability to adhere to the acquis

This section of the papers goes into great detail about the various parts of the European acquis. The section describes the level of alignment of the acquis regarding freedoms of movement,

[4] Economist Intelligence Unit. Ukraine 2006 Country Profile. Ed. Stuart Hensel. New York University Virtual Business Library. Retrieved March 8 2006.
[5] European Bank of Reconstruction and Development. Transition Reports 2005: Business in Transition. Published November 2005.

goods, capital and persons, innovation, taxation, various sectoral policies, the quality of life and other aspects very similar to those described in the other two sections. Most of the areas in this section are beyond the scope of this paper.

There is one area of the acquis that is of importance and will be covered in the economic section of the paper. The sectoral section overviews the level of competitiveness in the country regarding privatization and productivity of industry, energy and agriculture. For example the following quote can be found in the section: "The applicant countries need to be seen as pursuing policies aimed at open and competitive markets along the lines set out in Article 130 (Industry) of the Treaty."[6]

C. **Basis for Comparison**

1. Ukraine as a European Country

Before beginning to compare Poland and Ukraine, it must be made clear that Ukraine is a European country just as Poland. Any process of European integration first begins with an analysis of whether the applicant is a European State as stated in Article O of the Maastricht treaty. There are no set criteria on ruling which country is European. These criteria may be geographical, historical or cultural. However, Ukraine fits under any such criteria, whether geographical, historical or cultural. There are problems with the integration on the geopolitical level, which will be explored later in the paper.

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[6] European Union. Agenda 2000 - Commission Opinion on Poland's Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/poland/index.htm>

On the most basic level of geography, Ukraine is clearly part of Europe (See Exhibit A). Over the years, Ukraine has been under various country rulers. However, the identity of Ukraine partly goes back to the tenth century A.D. when the Kievan Rus began. It started with the coming of Norse Vikings to the area where Ukraine is today. In the tenth century the prince of Kiev adopted Christianity, a major factor in relations with Europe. Kievan Rus was in the influence of Byzantium and in fact the patriarch in Constantinople greatly influenced the church hierarchy. One of the greatest princes of Kiev, Yaroslav, kept close relations with Europe and in fact married his daughters to the kings of Norway, France and Hungary. Kievan Rus after Yaroslav began a long period of decline and by the 14^{th} century was under the rule of the Golden Horde, Lithuania and Poland.

Ukraine then entered a long period of Polonization until the late 18^{th} century when most of it was annexed by Russia. During these four centuries Ukraine was in the middle of wars between Russia and the Polish-Lithuanian Commonwealth in which both countries wrestled for different parts of Ukraine. Historically, however, Ukraine was greatly affected by Polish rule as shall be seen.

Ukraine's belonging to Europe, however, does not only lie in its history but also in the feeling of the people of Ukraine today. Ukraine's nationalist feelings have been largely suppressed in the last century as it was engulfed by the Soviet Union. Yet in the last fifteen years there has been a resurgence of both a religious and cultural type. The obvious sign of such a European resurgence was the Orange revolution, when over half a million people protested the illegal vote rigging of a pro-Russian candidate. The Orange revolution was led by clearly pro-European sentiments as the leader of the revolution, and the current president, has publicly stated his pro-Western intentions.[7]

This trend of becoming closer to Europe has been unfolding in the Ukrainian literary elite since the end of the last decade as well. “It [the emphasis on Europeanness] continued to inundate every level of elitist and popular discourse beginning with the pages of *Suchasnist’*, *Krytyka*, *Yi*, and *Geneza* through the East Ukrainian journal *Kurrier Kryvbasa* and with youth journals such as *Ukraiina* and *Smoloskyp Ukraiiny*.”[8] Furthermore, polls indicate the increasing proximity to Europe as well. Even though there is still significant pro-Russian feeling due to the demographic East-West split of Ukraine, recent polls indicate that a larger number of people in pro-western parties, compared to pro-Russian parties, is bound to win in the upcoming parliamentary elections. Furthermore, sociological polls indicate that around 50% of Ukraine positively regards the possibility of joining the EU, while only 20% regard it negatively[9]. The other 30 percent are undecided. Thus even though Ukrainian identity has been suppressed for more than a century, it has survived and is experiencing resurgence.

The addition of Ukraine to the EU would be positive not only because of its identity but also because of Ukraine’s geopolitical standing. Such an addition could make trade with Russia much easier as well as achieve a major political goal. The EU website on enlargement notes that the goal is to mend Europe’s divisions as well as profit from a larger market. Ukraine’s addition may

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[7] "Ukraine." Encyclopædia Britannica. 2006. Encyclopædia Britannica Online. Viewed 15 Mar. 2006 <http://search.eb.com/eb/article-30062>

[8] Institute of Sociology of Ukraine. Sociological Monitoring: Ukrainian Society 1994-2005. Ed. Natalija Panina. Published 2005. Retrieved March 9 2006. <http://www.i-soc.com.ua/rus/index1.html>

[9] Ibid

promote these goals. Thus, Ukraine as a country could definitely be considered as a candidate on these basic criteria. Whether consideration is warranted on the more specific criteria listed in the opinion papers will be explored further.

2. Ukraine and Poland

Before further exploring Ukraine's candidacy, the similarities between Poland and Ukraine are presented to show that a basis for their comparison exists. Ukraine and Poland are very similar in many ways. Ukraine is the largest country in Europe after Russia. Thus, it would be appropriate to compare it to the country that was the largest out of the acceding central European countries. Ukraine however is still twice the size of Poland geographically. The population of Poland is approximately 38 million, while Ukraine's is 48 million.[10] Another important similarity is that of GDP per capita. On the purchasing power parity basis the statistic was very similar between today's Ukraine and Poland during the time of the opinion report in 1997. Ukraine's GDP per capita (PPP) in 2004 was $6554 while the 2005 estimate is $6800. Poland's estimate in 1997 was $8469.[11] It should be noted that at the time of the report the statistic for Poland for GDP per capita was known only for 1995. The 1995 GDP per capita (PPP) for Poland was $7233.[12] These basic economic comparisons are an important element in allowing Poland to be considered as a comparison country.

The major aspect for a Polish-Ukrainian comparison basis is the specific history between Poland and Ukraine, a history in which Poland greatly defined the identity of the Ukrainian nation and thus led to Ukraine having certain similarities with Poland. These similarities are of course

[10] http://www.cia.gov/cia/publications/factbook/geos/pl.html
[11] CIA world factbook http://www.cia.gov/cia/publications/factbook/geos/up.html
[12] EU Poland opinion paper

weakened by the demographic East-West split of Ukraine in which the Eastern part of Ukraine is much more Russified. Nonetheless the history of Ukraine and Poland as mentioned above goes back to the 14th century. Poland ruled the western part of today's Ukraine while Lithuania ruled much of the other land. However, Polish culture and notions of order invaded the Lithuanian nobility, which soon led to the Lithuanian-Polish alliance where most of the Ukraine was given to the Polish side. "For the next century, virtually all ethnically Ukrainian lands experienced in common the direct impact of Polish political and cultural predominance," notes the Encyclopedia Britannica.[13] The families of the Kievan princes became largely polonized and converted to Roman Catholicism, while the peasants remained in the Orthodox religion.

In the mid 16th century a class of Cossacks, Polish and Ukrainian peasants fleeing serfdom as well as some other adventurers came to the land that is now Ukraine. They organized themselves into a military regime, so effective that it would become somewhat autonomous from the Polish state. However, they would later in the 17th century rejoin the fight against the Eastern Catholic Church (the Uniate). The Cossacks represent the base of Ukrainian culture and what much Ukrainian literature is about. During the 1600s and 1700s the Cossacks would fight for independence with Poland. The eastern hetmanate (Cossack leadership) would be under Russian rule. However, The Cossacks, originally peasants of Ukraine and Poland, were eventually disbanded by Russia when it gained control of both eastern and western Ukraine. In the 19th century under Russian rule, the literary circle, often suppressed by tsarist Russia, would reinfuse Ukrainian national movement. The most famous poet of Ukraine, Taras Shevchenko, made a

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[13] " Ukraine." Encyclopædia Britannica. 2006. Encyclopædia Britannica Online. 15 Mar. 2006 <http://search.eb.com/eb/article-30062>

great mark on this movement. “His poetry spanned themes from the fantastic in folk-like ballads to epic romanticization of Cossack glory.”[14]

Russia would outlaw the Ukrainian language in schools and yet the culture would rise up again and again. And so today, this culture goes back to the literary circle 19th century romantization of the culture of those Polish and Ukrainian peasants who became a military power. Furthermore, the Ukrainian language has a lot in common with Polish. Although originally it was indistinguishable from Russian during the Kievan Rus, the Ukrainian language separated during the Polish rule. As Ukrainian literary language spread during the 18th and 19th century the Polish influence became clear. “Like Belarusian, the Ukrainian language contains a large number of words borrowed from Polish.”[15] Furthermore, the Institute of Sociology in Ukraine has created an integral index of national distancing, an average of the answers to questions about the feeling of Ukrainians regarding other nationalities (See Exhibit D). Although Russia is the closest in this index, Poland is the closest out of the EU-acceded countries. With common history and language, Poland is the closest out of the recently acceded countries in both culture and size. It is because of this that Poland was chosen to analyze what the EU might require of a country the size of Ukraine and on the eastern border of the union.

3. Problems with Ukraine-Poland comparison

No comparison could be perfect between countries as there is plenty of history that separates them. First of all, even though Ukraine is closest to Poland in size and population out of the

[14] Ibid
[15] Ibid

acceded countries, there is clearly an assumption that the EU would even consider an addition of that size. This is certainly not necessarily true as can be seen with the trouble Turkey, a country about a third larger than Ukraine, has had. Turkish problems, however, are also due to many other variables.

Another major assumption and difference with Poland is that Russia, although it tried to exert influence, did not make as much of a difference in Poland's accession path as it can today with Ukraine's accession path. After the fall of the Soviet Union, the satellite countries, including Poland, rapidly separated themselves from Russia. Most of the central and eastern European countries introduced a "lustration" law[16], a law that forbids anyone working with security forces during the communist era, and sometimes anyone who was a communist, from being a part of the government. There is no such law in Ukraine.

Ukraine has a demographic dilemma in that half of the country has a large Russian-speaking minority. During the Orange revolution of 2004, when the first and second round of elections were dubbed illegal by the Supreme Court of Ukraine, half of the country still voted for the pro-Russian candidate in the third round of elections considered free and fair (See Exhibit B and C). Interestingly, as shown in the exhibit, none of the eastern regions of Ukraine have a Russian ethnic majority, yet the eastern regions still voted overwhelmingly for the pro-Russian party. This seems to indicate that eastern Ukraine, as a regional, feels closer to Russia than to the West. The Institute of Sociology integral indicator shows that Ukrainians view Russians as the closest people in relations, although there has been a distancing in the recent years. The demographic

[16] Agenda 2000 - Commission Opinion on Poland's and Lithuanian Application for Membership of the European Union

dilemma is truly a big problem for Ukraine and for the possible integration or comparison of Ukraine with any other country. The demographics present a problem because, it is not completely clear if the whole country would allow such an integration.

Furthermore, because Ukraine has such a large Russian contingent, Russia has a large influence on the Ukrainian electorate. Such a political influence would not be seen as very positive from the view of any integration analysis. This political influence could be seen from the Russian President's visit on behalf of the pro-Russian candidate in the Orange revolution presidential election. In fact, President Putin visited twice during the Ukrainian election to wish good luck to the pro-Russian candidate. "It [Putin's trip to Ukraine] also underlines the extent to which Ukraine remains strategically important to the Kremlin,"[17] noted BBC news. Such strategic importance puts makes it difficult for Ukraine to aspire to any Ukrainian integration as such aspiration puts Ukraine's trade relations with Russia in jeopardy.

The most obvious example of this problem can be seen in the Russian-Ukraine gas crisis, which happened on New Year's Eve of 2005. Russia refused to sell its natural gas to Ukraine at previous prices. This was seen by the West and by Ukraine as political pressure from Kremlin. "Ukraine, and some Western commentators, said Russia was trying to punish it for attempting to withdraw from Moscow's sphere of influence," noted BBC.[18] As Russia wanted to renegotiate the price at which it would sell gas, a renegotiation that seemed somewhat illegal as a 5 year

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[17] "Putin visits Ukraine before poll." BBC News. Posted November 12 2004. Viewed March 10 2006. <http://news.bbc.co.uk/2/hi/europe/4003663.stm>

[18] "Ukraine gas row." BBC News. Posted January 4 2006. Viewed March 10 2006 <http://news.bbc.co.uk/2/hi/business/4569846.stm>

contract was in place[19] (Russia contested this[20]), Ukraine held against such pressure. This situation resulted in Russia ceasing to deliver some of the gas. However, the gas that goes to Europe runs through Ukrainian pipes. Ukraine usually simply took some of the gas for itself under contract. When Russia decreased the gas sent to Europe so as not to account for the amount taken by Ukraine, Ukraine simply continued taking that gas as no contracts exist between Ukraine and the EU in delivering this gas. The problem was that Italy began to side with Russia.[21] However the gas crisis may not be a problem in the comparison. It is unclear how significantly Russia influenced Poland, as Poland was also dependent on Russia for its gas. Russia has put pressure on Ukraine in other ways as well. Russia banned the imports of meat and milk from Ukraine in early 2006.[22]

With such drastic measures taken by Russia, the comparison of Ukraine and Poland does have problems. Furthermore, because of the demographic differences and Russian influence, Ukrainian integration might be much more difficult to realize than that of Poland's in regards to familial ties to Russia, an existence of large cultural differences due to a long suppression of Ukrainian culture by Russia as noted above, and Europe's hesitancy to worsen relations with Russia. Even though Ukraine is reenergizing its nationalist roots, Russia's influence and closeness in relations remains to be a great obstacle to any kind of European integration. The

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[19] "Україна перехоплює ініціативу в газовій війні. Читайте документи." Ukrayinska Pravda. Posted December 22 2005. Viewed March 20 2006. <http://pravda.com.ua/news/2005/12/22/36935.htm>

[20] "Comment On Naftogaz Ukrainy's Statement From 7 December 2005." GazProm press release. December 2005. <http://www.gazprom.com/eng/news/2005/12/18443.shtml>

[21] "Ukraine stealing gas, says Italy." BBC News. Posted January 27 2006. Viewed March 9 2006. <http://news.bbc.co.uk/2/hi/europe/4655914.stm>

[22] Drujinina, Angela. CEE-Food industry. Posted January 23 2006. Viewed March 10 2006. "Russia bans meat and dairy from Ukraine."
<http://www.cee-foodindustry.com/news/ng.asp?n=65272-ban-dairy-ukraine>

purpose of this paper, however, is to analyze internal readiness of Ukraine and not external effects on Ukraine. Ukrainian integration may be difficult in internal political ways as well.

D. Legal and Democratic Comparisons

1. Political Government

The political situation has greatly improved in Ukraine after the Orange revolution. However, there is still much to be done to reach the level acceptable to the European Union. While Ukraine held its first free elections in December 2004, the Polish government held its first free elections in 1991, 1993 and its first free and fair presidential election in 1995. It applied for EU membership in 1994 and the opinion papers were written three years later in the middle of 1997.[23] Thus, the government had the chance of six years to prove the track record of its free government. On the other hand Ukraine has had very little time to prove the freedom of its government, as even its first free elections were dogged by a revolution in the background. The freedom of elections and the professionalism of the government are key to gaining EU membership. What is not necessary is the absence of a vigorous or even dirty political process. "[Since 1989] Poland has had two presidential and two parliamentary elections, a further seven prime ministers and at least as many governments," notes the Economist Intelligence Unit in its 1997 country report. This is not unexpected in a transition country and in fact less than a year after the Orange Revolution of Ukraine, the President sacked the cabinet of ministers and a new prime minister was approved by the Parliament.

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[23] European Union. Agenda 2000 - Commission Opinion on Poland's Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/poland/index.htm>

Cooperation between the various institutions of government seems to be adequate but needs improvement. Although the level of the President's popularity has been waning, the government continues to work smoothly as can be seen by recent developments in WTO negotiations.[24] Still there are problems with cooperation and the respect for limit of power just as there were problems in Poland. The Ukrainian Parliament declared a no-confidence vote for the new Prime Minister Yekhanurov in early January of 2006. The President challenged this action of the parliament and in fact the Prime minister is still in power, considered to be a caretaker until the parliamentary elections on March 26, 2006.[25] Poland experienced similar problems, as Waldemar Pawlak could not form a government in 1992.[26] Indeed the Ukrainian government, which needs to start reform as soon as possible, is still plagued by political battles. The problem for Ukraine is that one of the parties is not pro-European in that battle. This is quite a large problem as even Aleksander Kwasniewski, the 1995 to 2005 former President of Poland who was a former communist, was pro-NATO and pro-western. Ukraine faces an east versus west internal political battle. However, in a democratic government battles are to be expected. One could never say, for example, that a serious clash between US Democrats and Republicans would be undemocratic.

Indeed, the notion of opposition is quite important for any viable democratic government, as noted by the EU. The existence of such an opposition was clearly evident in the Orange Revolution when hundreds of thousands of people protested an unfair election. But more importantly the existence of opposition is evident with the new president as seen by the free

[24] "Переговоры Украины о вступлении в ВТО могут завершиться к концу мая." Korrespondent.net Posted March 18 2006. Viewed March 19, 2006. <http://www.korrespondent.net/main/148408>

[25] Economist Intelligence Unit. Ukraine March 2006 Country report. Ed. Stuart Hensel. New York University Virtual Business Library. Retrieved March 8 2006.

[26] Economist Intelligence Unit. Poland 1997 Country Profile. Ed. Alan Shipman. New York University Virtual Business Library. Retrieved March 8 2006.

protests and the strong parliamentary opposition (apparent in the no-confidence vote for the new Prime Minister). Poland was deemed to have an active opposition by the EU opinion paper in 1997.

One difference in the political governments is the existence, in Poland in 1997, of a "lustration" law, the law that requires any officials to swear an oath that they did not work in the security forces during the Soviet era. Note that one could still have been a communist as is obvious by the example of the former President Kwasniewski. Such laws exist in many central European countries. Ukraine does not have any such laws. In fact the lustration idea was brought up in 2005 after the Orange revolution. However, the idea seemed outdated and the new president did not support it. "The best time for such an idea was the beginning of the 90s," noted President Yushchenko. The idea of purification of the government from the people who falsified the elections in 2004 was never brought through the Parliament either.

The idea of respect of the limit of institutional power is unclear in Ukraine as the democratic institutions are only now being fully developed after the revolution and they have not been tested yet. In the past, there was no respect for such limits as President Kuchma, a highly corrupt president, had great control of the media, judges, parliament and so on. Part of this control was evident in the "temnyki," the circulars that told the media what to report on.[27] After the revolution, this changed almost instantly as the new President vowed to have a competitive media and stopped all of the temnyki. The Ukrainian law itself seems to have a respect for a limit

[27] European Bank of Reconstruction and Development. Strategy for Ukraine 2005-2007. Published May 2005. Retrieved March 12 2006. <http://www.ebrd.com/about/strategy/country/ukraine/index.htm>

of power for the institutions.[28] In practice there seems to be a definite separation of legislative and executive branch so far, as it is obvious that the President does not control the Parliament as before. Poland, in the opinion papers, was judged to have respect for limit of power as well. The judicial branch is another matter. The courts in Ukraine are highly corrupt and will be discussed further below.

While the political institutions of Ukraine develop, one major difference, as noted above, is that the opposition in Ukraine is not pro-western like it was in the case of Poland. The East-West Ukraine political conflict is thus a continuation of the demographic challenge and a decision Ukraine has to make as to whether to go toward Europe or Russia. Even though polls indicate that 50% of the population would vote for European integration, it is unclear, especially after the parliamentary election in March, which made the pro-Russian party the largest,[29] whether a real integration would be voted on positively in the parliament.

2. Political Crises

As mentioned above, President Yushchenko fired the Prime Minister and his cabinet at the beginning of this year. A political crisis ensued. However, as noted above, it seems that the EU is not against a country having political unpredictability. To further substantiate this claim, the following are the two major crises within the Ukrainian government, followed by similar crises in Poland shortly before the start of its accession path.

[28] European Bank of Reconstruction and Development. Ukraine Country Law assessment. Published June 2005. Retrieved March 12 2006. <http://www.ebrd.com/country/sector/law/cla/index.htm>

[29] "Тимошенко поставили на второе место." Ukrayinska Pravda. Posted March 10 2006. Viewed March 20 2006. <http://pravda.com.ua/ru/news/2006/3/10/38599.htm>

In Ukraine two people, Viktor Yushchenko and Yulia Tymoshenko, led the Orange revolution. After the election of Yushchenko as President, Tymoshenko was given the post of Prime Minister. After a half a year of decline, threats of reprivatization of key factories in Ukraine, the Prime Minister, a key person in the "orange" coalition, was fired along with the whole cabinet in September: "The president, Viktor Yushchenko, has responded to damaging allegations of corruption within his inner circle by announcing sweeping personnel changes, only seven months after bringing to power a fresh team and promising a return to clean leadership."[30] This was indeed a blow to the new administration. As the President nominated a new Prime Minister, Yury Yekhanurov it took two parliamentary votes for him to be accepted by the parliament.

However, in January a second crisis for the administration ensued. The new Prime Minister (PM) received a vote of no confidence by the parliament, forcing him to become a caretaker PM until the parliamentary elections in March: "On January 10th 250 of the 450 deputies voted to dismiss the prime minister, Yury Yekhanurov, and his government, less than four months after it took office and barely three months before the parliamentary election."[31]

These crises seem like they would indicate complete political instability in the country and render any talk of EU integration useless. However, one has to only look at the Polish side after their application for the EU to realize the falsity of such a statement. In February 1995, after a string of political crises between President Walesa and Prime Minister Pawlak, Pawlak received a vote of no-confidence and was removed from office by the parliamentary coalition: "Walesa

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[30] Economist Intelligence Unit. Ukraine October 2005 Country Report. Ed. Stuart Hensel. New York University Virtual Business Library. Retrieved March 8 2006.
[31] Economist Intelligence Unit. Ukraine January 2006 Country Report. Ed. Stuart Hensel. New York University Virtual Business Library. Retrieved March 8 2006.

made the move after forcing the resignation of Prime Minister Waldemar Pawlak by threatening to dissolve the parliament. Pawlak resigned on Tuesday night."[32] In place of the prime minister a former Communist was elected. Indeed, this was a controversial move for a country that was trying to gain admission into the EU. Less than a year after this resignation the new Prime minister resigned due to a formal investigation into accusations that he had been a spy for Russia for ten years. He was the seventh PM of Poland.[33]

Indeed both countries experienced a turbulent history. Yet this clearly did not detract from Poland's application into the EU. What would detract from the application into the EU for Ukraine is the demographic challenge, presented earlier, that this political battle represents. This is one of the major problems for Ukraine in applying for the EU.

3. Corruption

Another major problem is corruption, a negative aspect inherited from the Soviet era. Corruption is a major problem for Ukraine, much more so than it was for Poland during its application to the EU. The three major areas of corruption in Ukraine are administrative and business corruption (such as taking exorbitant bribe taxes, extortion and so on), police corruption, and judicial corruption, which is arguably the worst out of all. Administrative and business corruption are closely related in that the administration uses various means such as requiring bribes, extortion taxes, regular unneeded environmental and fire safety "checks," and other ways to make the business climate impossible. Administrative corruption reached the highest levels when spaces

[32] Associated Press. "Walesa accepts former Communist as premier." Boston Globe. Posted Feb 9, 1995. pg. 10. ProQuest. Document ID: 21434344

[33] "Poland," Democratic Poland section pg. 14. Microsoft® Encarta® Online Encyclopedia 2005 <http://encarta.msn.com/encnet/refpages/RefArticle.aspx?refid=761559758&pn=14>

were sold for those wishing to have a minister title in the prime minister's cabinet. This was one of the allegations leading to the sacking of the PM Tymoshenko and the cabinet. Police corruption in Ukraine had mostly reared its head through traffic police, who stop cars at random and demand bribes to let the cars go. It should be noted that this area has been improving with the new President who won partly on an anti-corruption platform. However, it will take a long time to fully counteract a deep culture of corruption.

Corruption in business is widespread in Ukraine but not as horrible as it is regarding police and judicial corruption. In Ukraine 27.53% of respondents to the Business Environment and Enterprise Performance (BEEPs) survey in 2005 noted that they have to frequently pay some kind of gifts in relation to taxes, customs, licenses and regulations.[34] Poland similarly had problems like this as the 1999 European Bank of Reconstruction and Development (EBRD) transition report suggested that a third of Polish managers bribe frequently.[35] Transparency International shows a slightly different picture with Poland having a better business environment in 1998 than Ukraine does today (Exhibit F). Transparency International combines polls of business people on perception of corruption. The score given to Poland in 1998 is 4.6 while Ukraine received a 2.6 in 2005, indicating a situation that is significantly worse than that in Poland. Interestingly Poland today has a much lower score indicating that corruption increased since the 1990s when Poland was interested in being integrated into the EU. It should also be noted that Transparency International has a fairly high standard deviation of 1.6 for its score for

[34] European Bank of Reconstruction and Development. Transition Reports 2005: Business in Transition. Published November 2005.
[35] Economist Intelligence Unit. Poland May 2000 Country Report. Ed. Simon Tilford. New York University Virtual Business Library. Retrieved March 8 2006.

Poland in 1998. Finally the opinion paper for Poland noted the following: "Corruption remains a source of concern despite the Government's efforts to curb it."[36]

Another paper by the World Bank separates illegal corporate corruption from "legal" corporate corruption, which is defined as influencing politics. The paper shows the two countries very close in the combined corruption index in the present. Unfortunately, Ukraine is *103rd* in illegal corruption perception out of the 104 countries (See Exhibit E). This ranking, however, goes beyond the perception of businesses on corruption and questions these businesses on other aspects of corruption, such as political funding. Overall, Ukraine seems to have significant problems in business and administration corruption. Polish business corruption was most likely significantly less than Ukrainian corruption today, although perhaps not in all aspects, such as the bribing, as indicated above. Business is seen as a less corrupt arena as opposed to the law enforcement and the judicial arena as noted by the global competition barometer.[37]

There is a positive note in the picture. In the past the people showed a great distrust towards the government and democratic institutions due to the corruption. This, however, seems to be improving after the Orange revolution (See Exhibit G). Trust for the government, the President, and the Parliament has improved significantly after the Orange revolution. Further responses to the question of belief in improvement were the most positive in Ukraine out of the countries in the global competition barometer (GCB).[38] There is still huge progress to be made as the GCB

[36] European Union. Agenda 2000 - Commission Opinion on Poland's Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/poland/index.htm>
[37] Transparency International. Global Competition Barometer 2005. Published December 2005. Retrieved March 17 2006. <http://www.transparency.org/policy_and_research/surveys_indices/gcb>
[38] Ibid

reports that more than 80% of Ukrainians who paid a bribe, paid it for access to regular public services (See Exhibit H). This is where the perception of corrupt administration most likely comes from. The other major perception comes from the following: “Similarly, administrative corruption and so-called “state capture” – which involves corruption at the highest levels, where the rules of the game are established – have reached some of the highest levels.”[39] However, the improvement in trust is likely to indicates a hopefulness for a decrease in corruption in the government as the global barometer report was held in May of 2005 (while the polls where held in July), too early for the new changes to take effect. After all, a culture of corruption does exist in Ukraine and such a culture takes time to change.

One of the improvements needed in corruption is a reform for the abhorrent traffic police in the Ukraine. The GCB points to the fact that law enforcement is considered one of the most corrupt institutions in Ukraine. On July 18th 2005, President Yushchenko ordered the traffic police agency to be completely abolished. The move was very drastic indeed. The president formed two different agencies instead, one which would patrol the cities and traffic lights and another for highways. He also replaced the police chiefs of Ukraine.[40] Whether this move will work remains to be seen. Nonetheless, the culture of corruption is unlikely to change within the next year and will be an obstacle to EU accession.

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[39] European Bank of Reconstruction and Development. Strategy for Ukraine 2005-2007. Published May 2005. Retrieved March 12 2006. <http://www.ebrd.com/about/strategy/country/ukraine/index.htm>

[40] “President Yushchenko Abolishes Ukrainian Traffic Police for Corruption.” Mosnews. Posted July 18 2005. Viewed March 10 2006. <http://www.mosnews.com/news/2005/07/18/ukrainegai.shtml> **and**
Mite, Valentinas. “Ukraine: Yushchenko Orders Law-Enforcement Overhaul.” RadioFreeEurope RadioLiberty Posted July 19 2005. Viewed March 12 2006. <http://www.rferl.org/featuresarticle/2005/07/916df47e-0b0e-4845-a18f-24c8d4056b64.html>

4. Judiciary

The other institution considered most corrupt in the Ukrainian government is the Judiciary. Indeed this institution is so abhorrent that it is worth a separate section. The President of Ukraine, in a recent radio speech, put judicial reform on the front of the agenda noting that the Judiciary is weak and inefficient. The president noted: "each tenth civilian case and each fifth criminal case is not considered. This red tape affects thousands of fates and causes thousands of tragedies."[41] Before the election of the current president the executive branch made many offences. Very often the executive branch would call judges and give instructions on how to rule.[42] This pressure seems to be continuing, although not from the very top in the Yushchenko administration. In the past senior presidential staff members would make such calls. Furthermore rampant bribing of judges continues in Ukraine, although some of the judges were actually prosecuted the past year. "There were indications that suspects often bribed court officials to drop charges before cases went to trial or to lessen or commute sentences. On October 7, President Yushchenko said that every month, four to seven prosecutors and several judges were arraigned for engaging in such corrupt conduct," noted the US Department of State in its 2005 human rights report.

In terms of judicial independence rankings, Ukraine ranks as one of the worst in the world. Indeed a World Bank paper on corruption ranks Ukrainian judicial effectiveness as 103rd out of 104 countries (Exhibit E). Michael Porter's 2004 Global Competitiveness report ranks Ukraine

[41] "Judicial Reform." President Viktor Yushchenko Radio Address. December 2005 <http://www.president.gov.ua/en/news/data/25_4717.html>

[42] United States. U.S. Department of State. Bureaeu of Democracy, Human Rights, and Labor. Ukraine 2005 Country Report on Human Rights Practices. Published March 2006. Viewed March 15 2006. <http://www.state.gov/g/drl/rls/hrrpt/2005/61682.htm>

as 95th out of 104 countries in judicial independence.[43] Certain basic rights in trial such as the right not to incriminate oneself were denied in 2005. “These rights were limited by the absence of implementing legislation, which left a largely Soviet-era criminal justice system in place,” notes the US State Department.[44] Other problems include a lack of witness protection, criminal intimidation to stop witnesses from testifying, lack of client-attorney privilege and so on. The trust for courts remained as low as before the revolution (Exhibit G).

There is some hope for improvements, as the Supreme Court has remained largely independent throughout the year. “The conduct of the Supreme Court during the political crisis [also known as the orange revolution] of November/December 2004 demonstrated that a separation of powers can function as intended,” noted the EBRD strategy report.[45] Furthermore the EU does not require a court system on the level of Western Europe. For example the EU Poland Opinion paper notes: “Major problems also exist in the areas of corruption, accountability and technical effectiveness. The judiciary lack fundamental experience of the rule of law and dealings with the EU.”[46] Furthermore, Poland’s court system is not up to the level of the west even today: “Although the judiciary is legally independent, major deficiencies exist regarding training, poor administration and resources for the courts as well as the length of proceedings and successful

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[43] Porter, Michael. World Economic Forum. Porter Global Competitiveness Report 2004-2005. Palgrave Copyright 2005.
[44] United States. U.S. Department of State. Bureaeu of Democracy, Human Rights, and Labor. Ukraine 2005 Country Report on Human Rights Practices. Published March 2006. Viewed March 15 2006. <http://www.state.gov/g/drl/rls/hrrpt/2005/61682.htm>
[45] European Bank of Reconstruction and Development. Strategy for Ukraine 2005-2007. Published May 2005. Retrieved March 12 2006. <http://www.ebrd.com/about/strategy/country/ukraine/index.htm>
[46] European Union. Agenda 2000 - Commission Opinion on Poland’s Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/poland/index.htm>

enforcement of judgments,"[47] notes the EBRD 2004 Strategy report for Poland. One can see that a country like Poland can go through the whole process of EU accession without having a western court system. Nonetheless, the level of judicial corruption in Ukraine is unparalleled and incomparable to any system in the accession countries. Without better courts, the whole governmental system of corruption is likely to persist.

5. Basic Human Rights

As a member of the Council of Europe, Ukraine has signed the European Convention on Human Rights, which is supposed to guarantee fundamental human rights and freedoms.[48] Furthermore as part of being a member both Poland and Ukraine had to abolish the death penalty. Also as part of being a signatory, citizens of the member states can bring their cases to the European Court of Human Rights.

Although Poland had its share of trouble, especially with the court system as mentioned above, the US State Department had the following to say in 1997: "The Government [of Poland] *generally respected the human rights of its citizens,* but there were some problems. Prison conditions are poor. Lack of public confidence as well as a cumbersome legal process and an inadequate budget plague the court system."[49] Another part of the same human rights report further elaborates the poor state of prisons, which are below internationally minimally accepted levels, and the extensive overcrowding of the prisons. Mostly, though, the report notes the lack

[47] European Bank of Reconstruction and Development. Strategy for Poland. Published April 2004. Retrieved March 12 2006. <http://www.ebrd.com/about/strategy/country/poland/index.htm>
[48] European Union. EU Convention on Human Rights.Viewed March 22 2006. <http://conventions.coe.int/treaty/Commun/ChercheSig.asp?NT=005&CM=&DF=&CL=ENG>
[49] United States. U.S. Department of State. Bureaeu of Democracy, Human Rights, and Labor. Poland 1997 Country Report on Human Rights Practices. Published January 1998. Viewed March 15 2006. <http://www.state.gov/www/global/human_rights/1997_hrp_report/poland.html>

of reports of human rights abuses in other areas due to very few of such abuses actually occurring. Indeed, Poland's human rights record is very good considering this was less than ten years after the break-up of the Soviet Union. Today the EBRD says the following: "Its [Poland's] human rights record is broadly comparable with that of established Western democracies."[50]

Ukraine's situation today is quite different. Some of the problematic issues for Ukraine are random arrest, torture by police, political targeting, prison treatment as in Poland, and other problems. For example, on September 24th Amnesty International noted that police often resort to physical force and torture to attain confessions. The Fifth television channel, one that promoted the orange revolution, noted that police often hang detainees upside down, beat them and so on. Furthermore the US State report notes: "persons involved in property, inheritance, or divorce disputes were diagnosed wrongfully with schizophrenia and confined to psychiatric institutions."[51] Pretrial detention facilities in Ukraine often have lower standards than that of regular prisons. Jail officers often use intimidation and force with detainees. Furthermore illegally lengthy detentions were a problem as well. Prison conditions, in general, were improving, although very slowly. In terms of random arrests, the US State Dept. report states: "The police arbitrarily detained persons, particularly dark-skinned persons, for extensive document checks and vehicle inspections."[52] Finally, another problem noted in the report was widespread wiretapping. These human rights problems lead back to judicial corruption which, as noted is the other major democratic stumbling block for Ukraine in regards to joining the EU.

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[50] European Bank of Reconstruction and Development. Strategy for Poland. Published April 2004. Retrieved March 12 2006. <http://www.ebrd.com/about/strategy/country/poland/index.htm>

[51] United States. U.S. Department of State. Bureaeu of Democracy, Human Rights, and Labor. Ukraine 2005 Country Report on Human Rights Practices. Published March 2006. Viewed March 15 2006. <http://www.state.gov/g/drl/rls/hrrpt/2005/61682.htm>

[52] Ibid

With a more independent and fair judiciary such abuses would be prosecuted and enforced in a timely fashion and thus would not occur as much.

6. Civil Freedoms

The final political requirement set by the opinion papers is the presence of certain inviolable democratic freedoms such as the freedom of association, assembly, speech and press. In Poland, freedoms including those of association and assembly were widely guaranteed in 1997. However, some problems existed in the realm of freedom of speech. In the television media sector the authorities had great influence over the channels both public and private.[53] There is a lack of evidence of overt political influence on the broadcast channels.[54] Other potential problems include a ban on the public insult and ridicule of the Polish nation and the political system. Nonetheless, this ban did not prevent the Polish media to widely criticize Polish government actions.

Ukraine improved greatly in media freedom after the Orange revolution. Since the revolution freedom of speech has thrived. Media has been largely free and opposition media is flourishing. There are still problems, as a culture of self-censorship exists. The Institute of Mass Information NGO reported that at least fifteen journalists were attacked or threatened[55]. This is likely a much smaller number of incidents compared to previous years. Most of the self-censorship came from

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[53] European Union. Agenda 2000 - Commission Opinion on Poland's Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/poland/index.htm>

[54] United States. U.S. Department of State. Bureaeu of Democracy, Human Rights, and Labor. Poland 1997 Country Report on Human Rights Practices. Published January 1998. Viewed March 15 2006. <http://www.state.gov/www/global/human_rights/1997_hrp_report/poland.html>

[55] United States. U.S. Department of State. Bureaeu of Democracy, Human Rights, and Labor. Ukraine 2005 Country Report on Human Rights Practices. Published March 2006. Viewed March 15 2006. <http://www.state.gov/g/drl/rls/hrrpt/2005/61682.htm>

the conflict of interest due to financing aspects of the media. In other words, papers and broadcasting stations afraid to lose financial support would censor themselves. Television in Ukraine is becoming a vibrant media sector. There were 13 national television stations registered in 2005. “According to the academy [Ukrainian press academy] statistics, there were 1260 licensed television and radio broadcasters in the country,”[56] notes the US State Department report. Problems with the national stations exist, however, because most of such stations are either state-run or owned by the Ukrainian oligarchs.

Other areas of free speech are largely unrestricted. Although academic freedom was not restricted by the government, institute directors still continue to have the ability to censor academic publication. Internet activity is unrestricted as well.[57] Freedom of assembly is largely guaranteed. Finally the US report states the following regarding freedom of association: “Registration requirements for organizations were extensive, but there were no reports that the government used them during the year to disband existing legitimate organizations or prevent new ones from forming.” Overall it seems like the gap between the 2005 Ukraine and the 1997 Poland is not large.

7. Political Conclusion

Through the comparisons of politics and democratic principles between the two countries, it becomes clear that although Poland was not immune to corruption, Ukraine is at a much worse stage today. Furthermore, the worst type of corruption is judicial corruption because it prevents Ukraine from improving in areas such as human rights. Politically the democratic institutions of

[56] Ibid
[57] Ibid- note that most of the Human Rights/Judicial analysis was taken from the US State Department 2005 Human Rights report and is compared to the Polish 1997 report.

Ukraine have grown quite a bit due to the Orange revolution. The regional challenge and the uncertainty of the future political choice of whether to move the country towards Russia or Europe remains a problem in regards to EU integration. The two main challenges, then, for Ukraine in the political sense are the badly needed judicial reform and a final choice by the country of Ukraine, both western and eastern, whether to integrate into the EU.

E. Economic Comparisons

1. Introduction

The EU opinion papers indicate that the economic criteria are very important for a country joining the European Union. The opinion papers focus on the degree to which a country is a market economy and is able to handle crises and competition once it is integrated into the EU. The economic section of the papers provide a general overview of the economic situation and then use this overview and a standard set of economic criteria to arrive at conclusions in regards to further economic improvement needed for the country. The following section, using the Polish opinion paper to shed light on what the EU might want from Ukraine, explores the degree to which Ukraine is a market economy and is able to handle competitive pressures in comparison to Poland in 1997.

2. Restructuring the Economy - Privatization, Competition and Price/Trade Liberalization

One of the main indicators of how far the country's economy has improved from the Soviet era is the effectiveness of privatization and the resulting competition environment in the private and public sector. Privatization in Ukraine was started in 1994 through a mass privatization program.[58] By 1999 approximately 80% of enterprises had been privatized. However, powerful oligarchs with ties to the government bought some of the larger companies at under-market prices. This was one of the reasons for the orange revolution, as the under-market sale of one of the country's steel plants was well publicized. During the period after 2000 mass privatization had slowed down and an increase in individual privatization occurred. Large enterprise privatization is still not complete in Ukraine.[59]

The EBRD transition indicators collected from the mid 1990s until today are the best way of consistently comparing the level of restructuring in the 1997 Poland to that of today's Ukraine.

Table 1: EBRD Transition Indicators Comparison

Countries	Small Scale Privatization	Large scale privatization	Price Liberalization	Competition Policy
Ukraine (2004-2005)	4	3	4	2+
Poland (1997-1998)	4+	3+	3+	3

Note: The classification system explaining what the ratings mean is in Exhibit Q1-Q3
Source: EBRD 1998 and 2005 Transition reports. [60]

The indicators in Table 1 above show that Poland's enterprise restructuring situation in 1997 was slightly better than Ukraine's situation today. The indicators represent the progress experienced by a country from the end of the Soviet Union with 4+ indicating a level of a western industrialized country and 1 indicating no change at all since the Soviet Union. In 1997 the government of Poland was already on its way to complete its large enterprise privatization in 2001. Ukraine, however, is still lagging behind in this respect. The EU opinion paper notes that

[58] Paskhaver, Alexander and Lidia Verkhovodova. "Приватизация до и после оранжевой революции." Center for Social and Economic Research. Published 2006. Viewed April 1 2006. <http://www.case.com.pl/strona--ID-publikacje_recent,publikacja_id-10044517,nlang-710.html>
[59] Ibid
[60] 1998 is used as this is the report which has the data for the condition of Poland in 1997, the year of the opinion paper.

the Polish large-scale privatization was slow to start in 1995, similar to the slow start of Ukraine's large-scale privatization. Ukraine's large-scale privatization, however, was dogged with public distrust (Exhibit I). This is because of the above-mentioned process of privatization resulting in the acquisition of Ukrainian resources by a number of oligarchs, such as Rinat Akhmetov (richest man in Ukraine) and Viktor Pinchuk (son in law of the former president).[61] Rinat Akhmetov is further known to be associated with organized crime.[62] Polish large-scale privatization was not dogged with such problems. Marshall Goldman an expert on the Russian economy and Oligarchs notes the following about the Polish privatization process: "some shares from the companies were put aside in a fund with the idea that as the reforms succeeded, the profits would go not just to the directors or the workers or stockholders, but to the public."[63] The presence of large capital in Ukraine is not necessarily a negative effect. There is discussion today in the EU as to the benefits of national champion companies. The distrust by the nation toward privatization *is* a negative effect. After the start of the new post-revolutionary government, the parliament halted all privatizations as a reaction to such significant distrust.[64]

Since the new government came in under the platform of honest reforms and transparent privatizations, the attitude toward privatization has become less negative (Exhibit I). However, one of the largest mistakes of 2005, the year of the new government, was the signal of re-privatization, by PM Tymoshenko, of previously under priced sales to Ukrainian Oligarchs. The

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[61] Paskhaver, Alexander and Lidia Verkhovodova. "Приватизация до и после оранжевой революции." Center for Social and Economic Research. Published 2006. Viewed April 1 2006. <http://www.case.com.pl/strona--ID-publikacje_recent,publikacja_id-10044517,nlang-710.html>

[62] "Крестный сын." Ukrayinska Pravda. Posted July 5 2005. Viewed March 26 2006. <http://pravda.com.ua/news/2005/7/5/5967.htm>

[63] Goldman, Marshall. "The Piratization of Russia: An Interview with Marshall Goldman." Center for Defense Information. Viewed April 2 2006. <http://www.cdi.org/russia/johnson/7179-9.cfm>

[64] Paskhaver, Alexander and Lidia Verkhovodova. "Приватизация до и после оранжевой революции." Center for Social and Economic Research. Published 2006. Viewed April 1 2006. <http://www.case.com.pl/strona--ID-publikacje_recent,publikacja_id-10044517,nlang-710.html>

EIU noted: “Although plenty of the asset sales that took place during the presidency of Leonid Kuchma are widely condemned as flawed, the government's insistence on revisiting them has raised doubts over its commitment to private ownership and the rule of law.”[65] These fears were quickly played down and the rhetoric of reprivatization was softened due to investor concern about large re-nationalization of privatized assets. A symbolic re-privatization was done to indicate the new leadership’s ability to carry out pre-revolutionary promises. Krivorozhstal, a large steel plant, which produces about a fifth of steel production in Ukraine, was sold to Mittal Steel for 4.8 billion dollars as opposed to the previous sale of under a billion dollars to Ukrainian Oligarchs.[66] Ukraine’s privatization program resumed in the middle of the year with large-scale privatization planned for future years. The state of Ukraine still holds large parts of the manufacturing industry including energy, infrastructure, communal services (water treatment, gas delivery and so on) and other key industries. Successful progress towards a European market depends on the success of future privatization. Although stumbling blocks do exist, overall Ukrainian progress in privatization is largely comparable to that of Poland based on the EU opinion papers and the EBRD indicators and EBRD report comments.

Other parts of the restructuring process seem to be on par with Poland as well. Private sector involvement in 2005 Ukraine is equal to that of Poland in 1997 with both countries having 65% of the economy GDP come from the private sector. However, the grey sector existed in both Ukraine and Poland. Poland’s informal sector was not small as the EU opinion paper reports: “unrecorded trade as measured by the currency deposits at private exchange offices amounted to

[65] Economist Intelligence Unit. Ukraine April 2005 Country Report. Ed. Stuart Hensel. New York University Virtual Business Library. Retrieved March 6 2006.
[66] Paskhaver, Alexander and Lidia Verkhovodova. “Приватизация до и после оранжевой революции.” Center for Social and Economic Research. Published 2006. Viewed April 1 2006. <http://www.case.com.pl/strona--ID-publikacje_recent,publikacja_id-10044517,nlang-710.html>

ECU 5.5 billion in 1996.” Furthermore 2.4 million jobs were not recorded by regular employment statistics. The EIU reported that the Polish grey sector accounted for between 10 and 20 percent of GDP in the mid 1990s. The EBRD reports that in Ukraine the informal sector is at least 33% of the economy.[67] One statistic puts both Ukraine and Poland in the same range as the World Bank reports the sales amount reported by a typical firm for tax purposes to be 90% for both countries in 2005.[68] However, statistics on the grey sector are imprecise by the nature of the subject. Still a general idea of the informal sector exists and it seems that this sector was slightly larger in Ukraine when compared to that of Poland.

As noted above the EBRD rated Ukraine’s price liberalization slightly better than that of Poland in 1997 and its competition policy slightly worse than Poland’s. The EU noted that Poland’s prices, except for energy, public transport, rents, pharmaceuticals and spirits, were mostly determined by the market.[69] The EBRD notes that 10.6% of CPI consisted of administered prices in Poland. Ukraine’s price liberalization is more advanced today as the EBRD notes a score of 4 indicating comprehensive price liberalization and utility prices being close to market prices. Nonetheless, six goods in the EBRD-15[70] basket of goods in Ukraine had prices subject to regulation of the state in 2005. While Poland had less price regulation, wage restrictions stifled entrepreneurs. Both countries have full current account convertibility and interest rate liberalization (banks were free to set deposit and lending rates) in their respective years.

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[67] European Bank of Reconstruction and Development. Strategy for Ukraine 2005-2007. Published May 2005. Retrieved March 12 2006. <http://www.ebrd.com/about/strategy/country/ukraine/index.htm>

[68] World Bank. Enterprise surveys. Informality. Retrieved March 25 2006. <http://rru.worldbank.org/EnterpriseSurveys/ExploreTopics/CompareAll.aspx?topic=informality>

[69] European Union. Agenda 2000 - Commission Opinion on Poland’s Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/poland/index.htm>

[70] The EBRD-15 basket consists of flour/bread, meat, milk, gasoline/petrol, cotton textiles, shoes, paper, cars, television sets, cement, steel, coal, wood, rents, intercity bus service.

Ukraine's competition policy lacks the robust performance of price liberalization: the business laws of the country lack effectiveness. Although an anti-monopoly office exists in Ukraine, the EBRD notes the low quality of corporate governance and insolvency.[71] A further elaboration is presented below.

3. Financial Sector Reform and Corporate Business Law

One of the key institutions in a country's economy is the bank. In order for the economy to grow, companies must be able to take out loans and the banking system must be stable. Banking reform was slow in Poland and in 1997 many of its banks were still not privatized. At the end of the Soviet Union era, Poland split the National Bank of Poland (NBP) into a central bank and nine state-owned commercial banks. By 1997 four of the nine still needed to be privatized. The EU opinion paper notes a lack of competition in the banking sector. Furthermore, the EU paper argues that Poland's banks took on many bad loans. It noted that the total share of non performing loans was 6% in 1996; the EBRD argues that it was closer to 10%. Furthermore "one indicator of inadequate competition in the banking sector [in Poland] is the spread between deposit and credit interest rates which remains quite large," notes the EU Poland opinion paper.[72] Furthermore, 50% of total bank assets were still in state owned banks by 1997. Yet in the comparison of EBRD transition indicators Poland was further along than Ukraine in its financial transition as seen below.

[71] European Bank of Reconstruction and Development. Transition Reports 2005: Business in Transition. Published November 2005. SEE Methodological Notes on the Country Reports in the Transition Report.
[72] European Union. Agenda 2000 - Commission Opinion on Poland's Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/poland/index.htm>

Table 2- Financial Institutions[73]		
Countries	Banking reform and Interest rate liberalization	Securities markets and non bank financial institutions
Poland 1998	3+	3+
Ukraine 2005	3-	2+

Note: The classification system explaining what the ratings mean is in Exhibit Q1-3
Source: EBRD 1998 and 2005 Transition Reports

The EBRD banking score takes into account the capital adequacy ratio, non-performing loans, the number of banks and the number of foreign owned banks and other statistics. While Poland's problem was the lack of a diverse competition and almost half the number of banks of today's Ukraine, Ukraine's problem is the lack of institutional laws as well as a very dangerous problem of non-performing loans. Poland's 10% bad loan problem seems insignificant when compared to the fact that 35% of Ukraine's loans are non-performing. One IMF working paper paints a rather bleak picture:

> "In particular, the buildup of cushions, in the form of capital and provisions, has not kept pace with the rapid credit expansion in Ukraine, and banks' profitability has remained much below those in most other transition economies. Poor asset diversification—due to the lack of other investment opportunities, about two-thirds of banks' total assets in Ukraine are loans—is another concern."[74]

This rapid credit expansion is indeed dangerous as it may lead to a systemic crisis. Ukraine has tried to slow down the credit expansion by raising the capital adequacy ratios and tightening regulations.[75] In fact Ukraine's 3- score from the EBRD is an increase from last year's 2+ score

[73] The report from 1998 is used as this is the report that has the information about Poland for 1997, the year of the first EU opinion paper used throughout this thesis.
[74] Duenwald, Christoph et al. IMF working paper. "Too Much of a Good Thing? Credit Booms in Transition Economies: The Cases of Bulgaria, Romania, and Ukraine." June 2005
[75] ibid

as the EBRD notes the growing regulation and competition in the banking sector.[76] The EBRD also created a report on banking in transition analyzing the quality of banking legislation through the Core Principles for Effective Banking Supervision set down by the central bankers of the G7. Using these principles the EBRD conducted a survey, in its Law in Transition report, of the banking sectors in transition countries using 10 sections. Although Ukraine still needs to improve to be on the level of Poland in 1997-8, Ukraine ranks high out of the CIS countries, which don't include Poland, according to the assessment. Indeed it seems that Ukraine only lags slightly in banking regulation (See Exhibit J.1 and J.2 for table and graphs regarding the EBRD survey). The exhibits references above clearly show that banking institution law is close to international standards. However, law may be different from practice, which is what may lead to the difference in conclusions of the IMF paper and EBRD (See Exhibit K for more risk analysis by EBRD).

Besides banking law and practice Ukraine lacks full proficiency in the Securities market as shown above and in Exhibit L. Availability of financial instruments, self regulation, efficiency of the secondary market, clearing and settlement of securities and other areas are at 80% or below of the International standards. The EBRD notes this lack in regulation as well as a general lack in development of various non-bank financial institutions (investment funds, pension funds etc.) in its rating of 2+ for Ukraine.

Poland's securities laws, on the other hand, are well developed and received a rating of 3+ in the EBRD 1998 transition report, meaning that Poland approaches International Organization of

[76] European Bank of Reconstruction and Development. Transition Reports 2005: Business in Transition. Published November 2005.

Securities Commission main principles.[77] Poland's development of non-bank financial institutions is further along as well, since a 3+ EBRD rating means an establishment of institutions such as leasing companies, insurance companies and so on. Although further development of these laws is needed in Ukraine, lack in such development does not seem to be a major obstacle to EU accession, as the EU opinion papers do not stress this aspect.

A worse problem exists in Ukrainian Commercial law and especially in company law. Poland received a high rating of 4 in its commercial law indicators (See Exhibit N for the meaning of this rating). Ukraine's commercial law is much more lacking both in the quality of the law on the books (sometimes called extensiveness by EBRD) and the effectiveness of implementation of the law (See Exhibit M). The worst part of Ukrainian company law is corporate governance law (see Exhibit O). Responsibilities of the Board, shareholder rights and transparency are one of the lowest in Europe. Ukraine will need to improve these laws for a more effective business environment and for the EU accession.

A positive note on Ukrainian laws is the agreement of approximation of legislation to the EU standard since 1998. This agreement is part of a larger partnership and cooperation agreement.[78] Interestingly, Poland committed itself to EU legal approximation 2 years before the start of negotiations.[79]

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[77] European Bank of Reconstruction and Development. Transition Reports 1998: Financial Sector in Transition. Published November 1998.
[78] European Union. EU-Ukraine Partnership and Cooperation Agreement Assessment. Published March 2003. Retrieved March 9 2006. <http://europa.eu.int/comm/external_relations/ceeca/pca/index.htm>
[79] European Union. Agenda 2000 - Commission Opinion on Poland's Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/poland/index.htm>

4. WTO acceptance

One of the key needs for legal approximation and a key criterion noted by the opinion papers is accession into the World Trade Organization (WTO). Poland became a member of the WTO in 1995. Ukraine is currently on the way to becoming a WTO member. A small final package of laws needs to be passed in order to be eligible to submit the final application for membership.[80] In order to join the WTO, Ukraine must first sign bilateral trade agreements with WTO working party members, those who decide on Ukrainian accession. Ukraine has so far signed more than 40 of these. Ukraine has finished bilateral negotiations with all but two countries, Australia and Kyrgyzstan. Ukraine has finished negotiations but has yet to sign the bilateral agreement with Armenia and Colombia.[81] Ukraine plans to submit its final accession package in May 2006 when the next Ukraine working group meets.

A few major milestones point to the high probability of the Ukrainian WTO accession happening. Recently both the United States (on 17th of February 2006) and the EU (December 1 2005) have proclaimed Ukraine as a free-market country.[82] This free market status means a great deal as one of the major sections of the EU opinion paper is called "The Existence Of A Functioning Market Economy." Finally this recognition led to a repeal, by the United States, of the Jackson Vanik amendment under which certain tariffs were imposed on Ukraine.[83] This will lead to an increase in trade with the United States and thus an improved economy, which is

[80] "Украина завершила переговоры по ВТО с Арменией и Колумбией." Korrespondent.net Posted March 17 2006. Viewed March 19, 2006. <http://www.korrespondent.net/main/148330>
[81] "Хербст: У Украины есть шанс стать членом ВТО еще в этом году." Korrespondent.net Posted March 21 2006. Viewed March 24 2006. <http://www.korrespondent.net/main/148648>
[82] "США предоставили Украине статус страны с рыночной экономикой." Korrespondent.net Posted February 17 2006. Viewed March 16 2006. <http://www.korrespondent.net/main/145527>
[83] "Bush ends Jackson-Vanik admendment for Ukraine." Kyiv Post. Posted march 29, 2006. Viewed April 2 2006. <http://www.kyivpost.com/nation/24138>

beneficial for EU accession. Furthermore, President Bush has vowed to help Ukraine closer integrate into a free Europe, a further benefit for Ukrainian-EU integration.[84] Such partnerships are very positive for Ukraine.

5. Macroeconomic Stability and Trade

Perhaps the most important criterion for integration is a stable macro economy and significant trade with the EU. The European Union does not desire to admit countries that are likely to have macro crises in the near future. Thus, effective monetary and fiscal policies are required. "The performance of a market economy is facilitated and improved by macroeconomic stability and a degree of consensus about the essentials of economic policy,"[85] notes the Poland EU opinion paper. Furthermore, in the Polish opinion paper the second subsection of the "Economy in the perspective of membership" notes: "a first indicator of Poland's competitiveness is the degree to which it already has achieved trade integration with the EU."[86] The opinion paper also notes the level of FDI coming into the acceding country. It should be noted that at the time the EU was writing the 1997 opinion paper, the latest data was for 1996. However, the environment in which the paper was being written in July 1997 should also be considered. Thus, Exhibit S and the tables in this section present data for 1997 (Sometimes the data is taken from the 1998 EBRD report which includes the 1997 data).

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[84] "США отменили поправку Джексона-Вэника для Украины." Korrespondent.net Posted March 23 2006. Viewed March 25 2006. <http://www.korrespondent.net/main/149072>

[85] European Union. Agenda 2000 - Commission Opinion on Poland's Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/poland/index.htm>

[86] Ibid

One of the key problems for Poland in the early 1990s was an incredibly high inflation. Inflation reached 600% in 1990.[87] Fortunately through its "shock therapy" Poland managed to bring inflation down to 30% by 1995 and to 15% by 1997 (See Exhibit S). While Poland's inflation was going down, Ukraine's inflation went up over 2005, although not enough to worry about. Ukraine tightened monetary policy in the last half of 2005 and growth of the money supply is predicted to slow down as bank crediting experiences a slowdown. The rise of inflation over the last year was likely caused by a large privatization money inflow and not by a fault of the monetary policy.

Other aspects of macroeconomic stability are equal or better in Ukraine when compared to the situation in Poland. The currency regime has been also well managed in Ukraine and the Hryvnia (the unit of Ukrainian currency) is currently pegged to a basket of currencies, of which the dollar is most prominent. The currency (5.12 Hryvnia per US dollar) has been stable for the last five years with a slight revaluation of 3% (from 5.32 to 5.12) in 2005 because of strong foreign currency inflows.[88] The Ukrainian current account balance is actually better managed than Poland's. (See Exhibit S). Poland had rising current account deficits from mid to late 1990s.

The EU opinion paper on Poland notes a problem in broadening the tax base, as tax evasion was a real challenge. Ukraine faces similar problems, as small firms do not have enough incentive to report taxes. Ukraine has both a system of income tax and value added tax (VAT), similar to the European VAT system. Although Ukraine has lowered its income tax to 13% in recent years, a

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[87] Economist Intelligence Unit. EIU Country Data. New York University Virtual Business Library. Data Retrieved March 8 2006.

[88] Economist Intelligence Unit. Ukraine 2006 Country Profile. Ed. Stuart Hensel. New York University Virtual Business Library. Retrieved March 8 2006.
And Ukraine. State Statistics Committee of Ukraine. Data Retrieved April 2006. <http://www.ukrstat.gov.ua/>

complicated tax system persists, leading many firms to avoid reporting taxes and creating the large informal economy mentioned above. Nonetheless, the government of Ukraine has been doing a good job in keeping within the budget, as fiscal deficit was around 2% of GDP similar to those of Poland in the 1990s (See Exhibit S). A better business environment does beg for tax reform, however. "Legislation to lower the VAT rate from 20% to 15% has stalled in parliament since mid-2004," notes the Economist.[89]

Tax reform is also needed to change the regional differences of Ukraine. Certain industries are concentrated in the East of Ukraine and have received tax preference due to the influence of big business. The new government has tried to combat this. Regional differences are seen in wages as well. Donbass, the eastern most area of Ukraine consisting of the Donetsk and Luhansk regions, has the second highest wages after Kiev due to its coal industry and export to Russia.[90] However, this region lacks infrastructure as is also reflected in the EBRD indicators. Kiev, the capital of Ukraine, is another distinct region, which is an investment haven due to trade with the West.[91] Regional differences were not foreign to Poland either. Unemployment varied significantly regionally. "Regional disparities as regards unemployment rates are large ranging from 5% in Warsaw to above 28% in Slupsk," notes the EU opinion paper.[92]

While, regional differences do not seem to be distinct to Ukraine, the lack of trade integration with the EU is. Trade integration is a key requirement for the ability of a newly acceded country

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[89] Economist Intelligence Unit. Ukraine 2006 Country Profile. Ed. Stuart Hensel. New York University Virtual Business Library. Retrieved March 8 2006.
[90] Ukraine. State Statistics Committee of Ukraine. Data Retrieved March 2006. <http://www.ukrstat.gov.ua/>
[91] Economist Intelligence Unit. Ukraine 2006 Country Profile. Ed. Stuart Hensel. New York University Virtual Business Library. Retrieved March 8 2006.
[92] European Union. Agenda 2000 - Commission Opinion on Poland's Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/poland/index.htm>

to survive the competitive pressures in the EU. The Polish EU opinion paper notes, "A first indicator of Poland's competitiveness is the degree to which it already has achieved trade integration with the EU." Four years after the break-up of the Soviet Union, in 1995, two thirds of Polish trade was tied to the EU. This level stayed constant until 1997. In Ukraine, however, imports and exports with the EU are at 37% and 28% (See Exhibit S).

General FDI is getting closer to Polish levels as the Stock of FDI per capita is similar to Polish levels in 1997. This is mostly because of the purchase for 4.8 billion of Krivorozhstal, the large steel plant by Mittal Steel.[93] Mittal Steel made this deal through a German subsidiary pushing Germany as the country with the highest FDI into Ukraine. However, this was a one-time purchase. Whether there will be increase in trade and investment into Ukraine in the near future is unclear. Reform in business laws and more importantly the judiciary should help such an increase as noted in the above sections.

Generally, Ukraine has done well macro economically with a stable currency and fiscal policy. Reforms are needed as in any transition economy and should not be a large obstacle to integration. Ukraine does need to boost its trade with the EU by creating and enforcing commercial law and corruption reforms that would improve the business environment and thus trade and FDI.

[93] Economist Intelligence Unit. Ukraine 2006 Country Profile. Ed. Stuart Hensel. New York University Virtual Business Library. Retrieved March 8 2006.

6. Infrastructure

One sector of the economy without which the economy cannot function is the infrastructure: telecommunications, railways, electricity and so on. The following is the table of EBRD transition indicators for the two countries.

Table 3 – Infrastructure Indicators			
Country (year)	Telecommunications	Railways	Electric Power
Poland (1998)	3+	3+	3
Ukraine (2005)	2+	2	3+

Note: for a full explanation of the meaning of ratings see Exhibit P1-P3
Source: EBRD 1998 and 2005 Transition Reports.

The Ukrainian transition indicators also include a road score with a rating of 2 (The road score was started much later than 1998 and thus such a Polish score does not exist). Polish roads were problematic in 1997 as well. The EU opinion paper notes: "As a consequence, a substantial increase in traffic has taken place since 1990, mostly using road infrastructure which was not built for such heavy traffic. Poland has had to invest in significant improvements to its road network, many of which are still under way, and to develop border crossing infrastructures." However, it is unclear how this statement is comparable to Ukraine's EBRD score as the EBRD score mostly represents the decentralization and privatization.

In the electric power sector, Ukraine is doing better today than Poland was in 1997-8. The rating mostly deals with sector regulation, private sector involvement and separation into generation transmission and distribution as noted in Exhibit P. The other two ratings again deal with the democratization of the sector and not the quality of the railways or the telecommunication sector. The telecommunication rating is based on commercialization of the sector including privatization of the main operator. Ability to enter the market is also analyzed. Ukraine's score implies slow progress in commercialization and little separation from the public sector. Ukraine's main telecommunications provided UkrTelecom is still state-owned. However, in the beginning of January 2006 Prime Minister Yekhanurov announced the preparation to privatize the company in 2006. The company controls 80% of the phone market.[94] The infrastructure seems to be somewhat of an obstacle to integration as most of Poland's infrastructure was significantly better.

7. Specific Sector Comparisons - Agriculture, Energy, Industry

Having finished the general macroeconomic analysis, certain sectors require attention in light of the EU integration. Energy is of importance in this analysis as Ukraine is a major partner in energy with the EU. Agriculture is one sector that the EU considers due to a generally strong farmer lobby. The EU also considers the ability of the acceding country's agricultural sector to produce a quality product and thus compete within the European Union. Finally, Ukrainian industry would also be important, as non-precious metals are an important export.

Energy is one sector that is very beneficial to the argument for Ukraine's integration into the EU. A member of the European parliament, Jerzy Buzek said: "Future membership of Ukraine in the EU could be the best solution in terms of energy relations between Ukraine and the EU."[95] Ukraine holds most of the pipelines that direct natural gas from Russia to the EU (See Exhibit T). Thus, Ukraine's energy sector is of significant value to the EU, especially since the EU is now

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[94] "SCM подтверждает заинтересованность в приватизации 'Укртелекома.'" Korrespondent.net Posted February 16 2006. Viewed March 17 2006. <http://www.korrespondent.net/main/145455>

[95] "Член Европарламента: Членство Украины в ЕС укрепит энергетическое сотрудничество." Korrespondent.net Published March 22 2006 Viewed March 26 2006 <http://www.korrespondent.net/main/148908>

hoping for energy security. Besides ownership of natural gas pipelines, Ukraine's advantage is in its coal reserves, having 60% of the former Soviet Union's coal reserves.[96] The Prime Minister of Ukraine noted that Ukraine needs to become a part of the European energy system and increase sales of energy to the West before any EU accession occurs. Sales of those coal reserves may be a future solution to the Prime Minister's problem. Ukraine does have problems with its energy trade as it depends on Russia for its natural gas.[97] However, as far as Russian influence through natural gas, Poland had its own problems as noted by the EIU: "Almost all natural gas imports still comes from Russia, a situation unlikely to change much in the future."[98] However, Poland had its coal advantages as well. Poland was the seventh largest producer of hard coal in the world.

Poland had problems in the undeveloped agriculture sector. The EU opinion paper notes that during transition agricultural employment is a buffer. Agricultural employment was a large part (26.9%) of total employment in Poland in 1995.[99] Agriculture as a percentage of GDP was much lower (6.4%) indicating lower agricultural labor productivity compared to general labor productivity (See Exhibit S). Furthermore food standards were below that of the EU, leading Poland to an agricultural food trade deficit; the EU did not allow certain Polish food products to be imported leading to fewer exports to the EU compared to imports from the EU. Poland's agricultural sector was not fully able to support competition and the biggest share of the

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[96] Economist Intelligence Unit. Ukraine 2006 Country Profile. Ed. Stuart Hensel. New York University Virtual Business Library. Retrieved March 8 2006.

[97] "Известия: Интервью Еханурова." Interview with Prime Minister Yekhanurov. Korrespondent.net Published March 23 2006. Viewed March 26 2006. <http://www.korrespondent.net/main/149046>

[98] Economist Intelligence Unit. Poland 1998 Country Profile. Ed. Merli Baroudi. New York University Virtual Business Library. Retrieved March 8 2006.

[99] European Union. Agenda 2000 - Commission Opinion on Poland's Application for Membership of the European Union. Brussels. Published July 1997. Retrieved February 20 2006. <http://europa.eu.int/comm/enlargement/arch_countries/poland/index.htm>

agricultural budget goes to farmer's social security. The EIU noted: "However, few in Poland expect EU membership to bring benefits to its farmers comparable to CAP [assistance program] benefits, and there is nervousness about EU competition in agriculture."[100]

Ukraine has similar problems as Poland in productivity. While 23% of labor was in agriculture, the sector was around 13% of GDP. This is a fairly large percentage indicating that the economy is still significantly dependent on agriculture. The EU stresses competitiveness of the sector as low quality products may not survive on the market. Ukraine has an advantage in having one of the best soils in the world, chernozem or black soil, and thus has the potential of becoming a great exporter in the sector. During the Soviet times Ukraine was called the breadbasket of the Soviet Union. However, outdated farming machinery and technique plague Ukrainian productivity. The EIU notes: "Some 90% of agricultural land is suitable for arable production. Despite some of the richest soil in the world, Ukraine's agricultural yields fell sharply after independence, because of a shortage of fertilizers and other critical inputs."[101] There has been somewhat of a recovery since 2000 in the agricultural sector and Ukraine is now a major grain exporter. Thus, Ukraine and Poland have similar productivity problems. The exception may be a moratorium, imposed by the Ukrainian government in late 2001, on agricultural land sales. This moratorium is scheduled to be lifted in 2007.

While Poland had problems in agriculture, industry was an area of great growth. Most of the manufacturing sectors had great productivity growth. The car manufacturing sector was

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[100] Economist Intelligence Unit. Poland 1998 Country Profile. Ed. Merli Baroudi. New York University Virtual Business Library. Retrieved March 8 2006

[101] Economist Intelligence Unit. Ukraine 2006 Country Profile. Ed. Stuart Hensel. New York University Virtual Business Library. Retrieved March 8 2006.

particularly successful, almost doubling over the early 1990s. US and Korean manufacturers opened operations in the country and the components industry was taking off. Many of the other sectors experienced very high production growth as well. Food processing was also particularly successful. Primary products sectors, such as steel and metals, however, experienced decreasing production. The coal industry needed heavy restructuring as well. The equipment in these sectors was outdated. The 1998 EIU Poland country profile noted: "output remains 30m-40m tones above what can profitably be sold, so the industry still requires considerable restructuring to survive without subsidy."[102] Metals fell from 10.3% of all industrial sales in 1990 to 6.3% in 1997.

In terms of industry and mining, Ukraine has truly impressive natural resources. It is the fifth largest producer of iron ore in the world. It also has the world's second largest reserves of magnesium. Industry was very important to Ukraine's growth over the last 5 years. Manufacturing sector accounted for 75% of industry production. Within manufacturing, steel alone accounted for 25% of industrial production. The situation is rather reversed compared to Poland, as primary metal products remain more important than sectors such as food processing. This seemingly positive situation makes Ukraine vulnerable to changes in world steel prices, especially since a large part of production is export oriented. Indeed, as mentioned before, around 30% of Ukrainian exports were non-precious metals. This vulnerability was blamed for the decrease in Ukrainian GDP growth in 2005. Overall, however, it seems that each country had its own restructuring problems and Poland's problems did not stop the EU from starting with negotiations.

[102] Economist Intelligence Unit. Poland 1998 Country Profile. Ed. Merli Baroudi. New York University Virtual Business Library. Retrieved March 8 2006

8. Social Welfare

A final section of the economic criteria is the general social development. The EU does not seem to put much importance on general social welfare. The EU does give importance to the level of development of labor and the literacy of the population.

Fortunately for both Ukraine and Poland, the Soviet Union stressed education. As such the literacy rate is very high in both countries, such that more than 99% of people aged 15 and above can read and write (See Exhibit S). Furthermore enrollment in secondary education was one of the highest in the world in Ukraine in early 2000s.[103] Having an educated population, Ukraine further has fairly low recorded unemployment. The recorded unemployment was around 3% compared with around 11% for Poland in 1997 and 15% in 1995 for Poland. The Ukrainian figure is actually a bit misleading, as many people do not declare themselves unemployed in Ukraine because unemployment help is not very large. The International Labour Organization calculates that the realistic unemployment rate in Ukraine is around 9 percent.[104] This is still smaller than that of Poland in 1997.

Ukraine's problems, however, lie in life expectancy and poverty, areas surprisingly not covered by the opinion papers. Both of these are improving, however. Ukraine's life expectancy has been around mid 60s with female life expectancy being significantly higher as reported by the State Statistics committee of Ukraine (See Exhibit S). Poland had a similar disparity with females

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[103] United Nations. Globalis UN Virtual University. Social Welfare indicators. Viewed April 1 2006. <http://globalis.gvu.unu.edu/>

[104] International Labor Office. ILO Bureau of Statistics. ILO Statistical Database. Data Retrieved April 3 2006. <http://laborsta.ilo.org/>

having a significantly higher life expectancy. Ukraine has had a distinct and significant problem with population decline. Population was around 50 million in the early 1990s and is now 47 million. Finally Ukrainian poverty, although worse than Polish in the mid-1990s, has been improving. After the Russian crisis the percent of population under the poverty line stayed close to 30%. However, a new World Bank paper last year determined significant decreases in poverty due to increasing pensions. The poverty percentage is now around 19%, closer to that of Poland in 1997 (See Exhibit U). Furthermore large cities experience an even lower percentage of poverty, while rural areas still remain a problem with poverty closer to 30%. (See Exhibit V). Overall social welfare does not seem to be a problem due to the lack of interest by the EU and the lack of any drastic problems in this area in Ukraine.

9. Economic Conclusions

Through the economic comparison of Poland in the beginning of its accession path with today's Ukraine, it becomes clear that Ukraine is actually not very far economically from Poland at the time. Indeed Poland in 1997 was far from the western standards. The goal for accession, then, is to reach that level at which Europe thinks Ukraine can begin to improve at a very fast pace during the accession negotiations. Ukraine does need further reforms in business law and significant reforms in infrastructure to be on a more acceptable level. Ukraine also needs further trade integration with the EU. However, this is likely to occur with business reforms and decreased corruption. Overall, however, Ukraine is close to an EU acceptable level and the economic criteria do not seem to be a big obstacle to EU integration.

F. Conclusion

This paper has examined how close Ukraine is to being ready for a process of accession to the European Union by comparing today's Ukraine to the Poland of 1997. This comparison was done with a focus on the criteria that the EU proposed in the European council at Copenhagen and examined in the EU opinion papers on accession. Poland was first identified as a country that is comparable to Ukraine due to its similar culture, population and geographic size as well as other variables. Then, Poland was compared to the situation today in Ukraine to gather how far from the 1997 Poland Ukraine is today. Based on this comparison the paper analyzed any internal obstacles (coming from within Ukraine) to EU integration. External obstacles to Ukrainian integration, such as Russian influence and EU's temporary policies on further integration, may exist. For example, the EU has indicated that it might slow its near future integration. The purpose of this paper, however, is to analyze to what extent Ukraine is ready for integration if the EU decides to continue its expansion. Through this analysis, and comparison with Poland, a few stumbling blocks for Ukraine have been identified.

The two major parts in the EU opinion papers are political and economic. The following two tables summarize the discussion on the details of the political and economic comparison between Ukraine today and Poland in 1997 followed by conclusions on the main stumbling blocks to EU integration.

Table 4: Summary of Political Comparisons

	Ukraine (2005)	Poland (1997)
Government	- First free elections in 2004 - Ukraine still needs time to test political institutions - No lustration law - Separation of legislative and executive branches exists. Less so with judicial branch - Opposition is ideologically disparate in regards to the EU - Trust in political institutions has increased greatly Overall, ideological differences in the opposition are the only significant obstacle to integration in this section.	- First free elections in 1991: 6 years before the start of negotiations - Lustration law exists - Full separation of executive, legislative and judicial powers and respect for limit of those powers - Opposition has similar views on EU integration
Political Crises	- Two political crises regarding stepping down of PMs with two years of orange revolution Not an obstacle to integration.	- Two political crises, similar to those of Ukraine, in the two and a half years before the publication of the EU opinion paper and start of negotiations
Business and Administrative Corruption	- 30% admit to bribing frequently for business purposes - Transparency International 2005 score: 2.6 (standard deviation .2) with 1 out of 10 being worst Perception of corruption is worse in Ukraine. This is an obstacle to EU integration. However it pales in comparison to the problems in the judiciary	- One third admit to bribing frequently for business purposes - Transparency International 1998 score: 4.6 (standard deviation 1.6) with 1 out of 10 being worst
Judiciary	- World bank paper ranks judicial effectiveness as 103/104 in 2004 - Low trust in courts by the populace - The US Department of State notes serious deficiencies in the judicial system such as control of the judicial branch by the executive branch and other powerful interests This is one of the most significant problems in the area of EU integration	- World bank ranks judicial effectiveness as 82/104 in 2004, showing that the EU does not require western standards in this area for integration - The EU opinion paper notes the cumbersome nature of the judicial system. Serious problems are not noted - The US Department of State agrees with the above analysis
Basic Human Rights	Although significant problems in this area exist, such as random arrests or poor treatment of detainees, this obstacle is referred back to the judicial problem as any human rights transgressions would be prosecuted with an effective judiciary	The US Department of State notes that the government generally respects citizens' rights
Civil Freedoms	Great improvement in the area of civil freedoms since the orange revolution. Freedom of the press, assembly and association are guaranteed with very minor problems recorded Not an obstacle to integration	Both the US Department of State and the EU opinion paper agree that civil freedoms are guaranteed and enforced with some minor problems recorded

Table 5: Summary of Economic Comparisons		
	Ukraine (2005)	Poland (1997-8)
Restructuring of the Economy	- The EBRD transition indicators (which indicate how close to westernization the county is in certain areas) for Ukraine show that the country is close to the level of Poland in 1997-8. - The informal sector is around 30% of GDP - Private sector is 65% of GDP <u>Not an obstacle to integration</u>	- As noted Poland's small-scale privatization, large-scale privatization, price liberalization and competition policy in 1997 is similar to that of Ukraine according to the EBRD indicators. (See Table 1 in the paper) - The informal sector is 10-20% - Private sector is 65% of GDP
Financial Sector Reform and Corporate Law	- Banking sector laws are improving with the EBRD noting improvement in banking by raising its rating this year. - Securities laws are on average around 80% of the international standards. - Corporate law has the most significant problems in its extensiveness. However, the EU opinion paper does not stress this subject of extensiveness of business law Thus, <u>the lack of laws is a minor obstacle</u> in that it lowers the quality of the business environment	- Poland's banking laws were approaching international standards except in one area (See Exhibit J.2) - The financial sector is approaching international levels. The EBRD transition indicators for Poland in this area are 3+ out of 4 indicating proximity to international standards
WTO acceptance	Ukraine is likely to become a member in 2006 <u>Not an obstacle to integration</u>	Poland became a member in 1995, two years before the EU opinion paper
Macroeconomic Stability	- Currency has been in a stable peg over 4 years and inflation has remained stable - Fiscal deficit has been around 2% - Ukraine has kept a current account surplus - Bank sector risks exist because of credit expansion and the size of non-performing loans (35%). However, the government has tightened regulation <u>Not an obstacle to integration</u>	- Floating exchange rate. Slowly depreciating over the late 1990s. Inflation was decreasing from the hyperinflation in the early 1990s and approaching 15% in 1997 - Fiscal deficit around 2% - Rising current account deficit - No sign of significant bank risks: 10% non-performing loans
Trade Integration	- Stock of FDI per head is $340 - Exports to the EU are 28% of total - Imports from the EU are 37% of total <u>Lack of trade integration is a significant problem. However, since it is the consequence of corruption and bad business environment, it is grouped with the corruption obstacle to integration.</u>	- Stock of FDI per head was $380 - Both exports to and imports from the EU were 64% of total

Table 5: Summary of Economic Comparisons continued		
	Ukraine (2005)	Poland (1997-8)
Infrastructure	According to the EBRD indicators the average infrastructure score is 2 out of 4 indicating a lack of restructuring in this sector. The score does not indicate the quality of the infrastructure but rather the quality of institutions and regulation in the sector. The disparity between the countries in this sector presents a minor obstacle and is the largest obstacle in the economic comparisons besides trade integration	Poland's EBRD indicators were all above the score of 3 out of 4. Significant lack of infrastructure was not noted in the EU opinion paper.
Sector Comparisons (Agriculture, Energy and Industry)	- Agriculture experienced low productivity - Ukraine is a major grain exporter - Ukraine has very large coal reserves - Russian natural gas is one of many sources - Fifth largest producer of iron ore - Primary metals play a large role - Other sectors remain less productive This area is not a significant obstacle to integration as the two countries were comparable with each having its own positives and negatives	- Agriculture experienced low productivity - Seventh largest producer of hard coal in the world - Wholly dependent on Russian natural gas - Low output in primary metals - Food processing and car manufacturing experience high production growth
Social Welfare	- 19% of population is below poverty line - 99% literacy rate - Life expectancy at birth is 68 years Not a significant obstacle to integration	- 15% of population was below poverty line - 99% literacy rate - Life expectancy at birth was 72 years

In the economic arena Ukraine is performing close to Poland. Indeed, as the EBRD transition indicators show, privatization and liberalization are on track. Banking practice still needs development especially in the regulatory sphere. Fiscal and monetary policy is in many ways better than Poland's in 1997 as Ukraine enjoyed both current account surpluses for the last few years and a low public debt. Further improvement in laws would improve the business environment. However, at the current stage of development and with lack of judicial effectiveness, it is not a major obstacle to integration. Perhaps the main economic stumbling block is the Ukrainian infrastructure, in many ways still unchanged from the Soviet era. While there has been progress in electricity decentralization, railways, telecommunications and roads need to be decentralized and further developed. Especially, if Ukraine hopes to develop its economy, the infrastructure has to be ready to take on a higher burden.

In the political arena the stumbling blocks for Ukraine are much larger. In fact, the two major problems for Ukraine in regards to EU integration lie in this arena. Ukraine suffers from the continuation of Soviet-era corruption. This corruption seeps through every aspect of the society. While the last year has seen a resurgence in the areas of freedom of speech and freedom of election, judicial corruption remains a major problem. Because of an ineffective and non-independent judiciary, the business environment and political freedom of citizens are significantly jeopardized. The inefficiency of the business environment decreases the trade integration with the EU, further reducing chances of Ukrainian accession. Judicial corruption in Ukraine is one of the worst in the world and has not been reformed with the coming of the new government. This type of corruption is a major impediment to integration.

The other major political problem is much deeper. The demographics of Ukraine split Ukraine into two parts, and the eastern part of Ukraine is much closer politically to Russia compared to the western part. The eastern part traditionally votes for pro-Russian candidates. Indeed the parliament today, after the March 2006 parliamentary election, is almost 40% pro-Russian. Pro-Russian does not mean anti-European of course. But a pro-Russian candidate does not push an integration agenda. The number in the Russian minority has been decreasing over the last 15 years as can be seen in the Ukrainian 2001 census. This may or may not eventually solve the demographics problem. Thus, corruption and the demographic problem are the two major Ukrainian obstacles to integration, with economic problems being secondary.

Recently, the Prime Minister of Ukraine, Yuri Yekhanurov, has said that after the 2006 parliamentary election there will be no difference in the path of Ukraine, no matter who wins. Ukraine will head in the path to Europe.[105] Ukrainian reforms might ultimately take it to the West and not the East. This remains to be seen in the future. Whether Ukraine shall ever enter the European Union remains to be seen as well.

[105] "Известия: Интервью Еханурова." Korrespondent.net Published March 23 2006. Viewed March 26 2006. <http://www.korrespondent.net/main/149046>

G. Exhibits

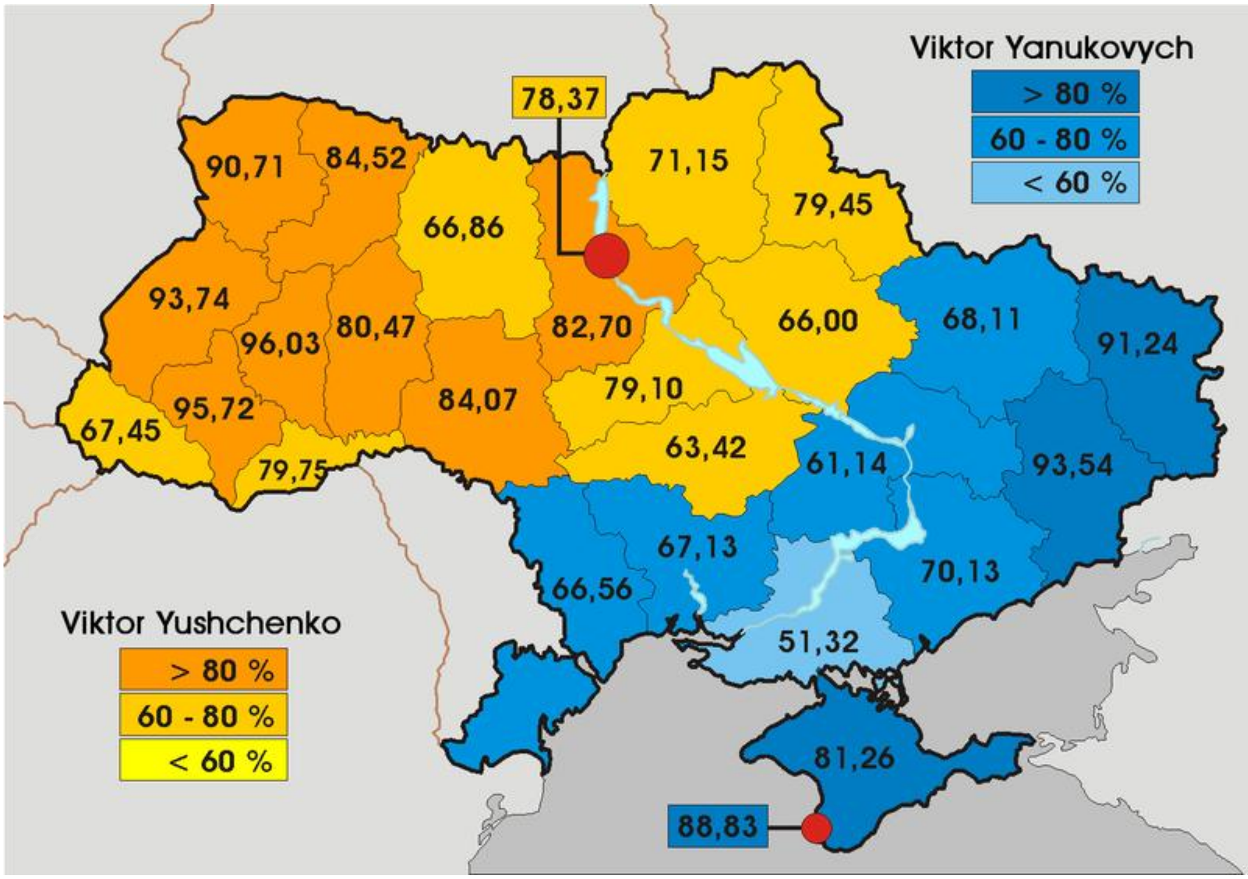
Exhibit A – United Nations Map Of Europe

Map No. 3877 Rev. 5 UNITED NATIONS
July 2004

Department of Peacekeeping Operations
Cartographic Section

Source: Map No. 3877 United Nations Department of Peacekeeping Operations, Cartographic Section. July 2004

<u>Exhibit B - Map Of Votes In The Orange Revolution Elections</u>



Source: Wikipedia and BBC. <http://en.wikipedia.org/wiki/Ukrainian_presidential_election,_2004>
Note: Viktor Yanukovych was the Pro-Russian candidate, while Yushchenko led the Revolution

Exhibit C - Breakdown of Russian-Ukrainian Demographic in Ukraine

Region	Ethnicity	% Of region's Population	Region	Ethnicity	% of region's Population
Crimea	Russian Ukrainian	58.3 24.3	Mykolaiv	Russian Ukrainian	14.1 81.9
Vinnytsia	Russian Ukrainian	3.8 94.9	Odesa	Russian Ukrainian	20.7 62.8
Volyn	Russian Ukrainian	2.4 96.9	Poltava	Russian Ukrainian	7.2 91.4
Dnipropetrovsk	Russian Ukrainian	17.6 79.3	Rivne	Russian Ukrainian	2.6 95.9
Donetsk	Russian Ukrainian	38.2 56.9	Sumy	Russian Ukrainian	9.4 88.8
Zhitomir	Russian Ukrainian	5.0 90.3	Ternopil	Russian Ukrainian	1.2 97.8
Zakarpattia	Russian Ukrainian	2.5 80.5	Kharkiv	Russian Ukrainian	25.6 70.7
Zaporizhia	Russian Ukrainian	24.7 70.8	Kherson	Russian Ukrainian	14.1 82.0
Ivano-Frankivsk	Russian Ukrainian	1.8 97.5	Khmelnitsk	Russian Ukrainian	3.6 93.9
Kiev	Russian Ukrainian	6.0 92.5	Cherkasy	Russian Ukrainian	5.4 93.1
Kirovohrad	Russian Ukrainian	7.5 90.1	Chernivtsi	Russian Ukrainian	4.1 75.0
Luhansk	Russian Ukrainian	39.0 58.0	Chernihiv	Russian Ukrainian	5.0 93.5
Lviv	Russian Ukrainian	3.6 94.8	City of Kiev	Russian Ukrainian	13.1 82.2

Map Source: BBC. Map. "Ukraine MPs reject result of vote." <http://news.bbc.co.uk/2/hi/europe/4047421.stm>
Table Source: Ukrainian Census 2001. http://www.ukrcensus.gov.ua/eng/results/general/nationality/
Notes: The Census indicates that approximately 15% of Ukrainians speak Russian as a first language. Underlined regions are ones that voted for Yanukovych

Exhibit D - Integral Index Of National Distancing

The National Distancing between Ukrainians and other nationalities	Integral Index of National Distancing (scale 1–7 points)											
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Azerbaijanis	—	—	—	—	—	—	—	—	5.8	—	5.8	5.7
Americans*	4.4	—	4.6	—	4.7	4.8	4.8	4.9	5.4	—	5.5	5.4
Arabs	—	—	—	—	—	—	—	—	6.1	—	6.1	6.0
Afghans	—	—	—	—	—	—	—	—	6.2	—	6.2	6.1
Belarusians*	2.7	—	2.6	—	2.5	2.4	2.8	2.7	4.2	—	4.1	3.9
Georgians*	4.9	—	5.0	—	5.1	5.0	5.4	5.3	5.4	—	5.5	5.4
Jews*	3.8	—	3.8	—	3.9	3.8	3.9	3.9	5.1	—	5.1	5.0
Chinese people	—	—	—	—	—	—	—	—	5.9	—	5.9	5.8
Crimean Tatars*	4.6	—	4.8	—	4.8	4.9	4.9	5.0	5.6	—	5.5	5.4
Moldovans	4.6	—	4.7	—	4.8	4.8	5.1	5.1	5.3	—	5.2	5.1
Blacks	—	—	—	—	—	—	—	—	6.0	—	5.9	5.9
Germans*	4.5	—	4.6	—	4.8	4.7	4.8	4.9	5.2	—	5.2	5.1
Poles*	4.4	—	4.5	—	4.6	4.5	4.8	4.9	5.0	—	5.0	4.8
Russians	2.3	—	2.1	—	2.0	1.9	2.3	2.2	3.3	—	3.1	3.1
Romanians*	4.7	—	4.9	—	4.9	4.9	5.2	5.2	5.4	—	5.4	5.1
Serbs	4.8	—	5.0	—	5.1	5.1	5.4	5.4	—	—	—	—
Slovaks	4.6	—	4.8	—	4.8	4.8	5.0	5.0	5.1	—	5.1	4.9
Turks	4.9	—	5.2	—	5.3	5.4	5.6	5.6	5.9	—	5.9	5.7
Hungarian*	4.6	—	4.8	—	4.9	4.8	5.1	5.1	5.4	—	5.4	5.1
Ukrainians	1.8	—	1.4	—	1.5	1.5	1.6	1.6	2.4	—	2.2	2.2
Ukrainians living abroad	—	—	—	—	3.9	3.8	4.0	4.1	3.5	—	3.4	3.1
Gypsies*	5.1	—	5.3	—	5.4	5.5	5.6	5.7	6.0	—	6.1	6
Czechs	—	—	—	—	—	—	—	—	5.3	—	5.3	5.1
Chechens	—	—	—	—	—	—	6.1	6.1	6.3	—	6.4	6.4
Integral index of national distancing by 10 nationalities, marked ""*	*4.4*	—	*4.5*	—	*4.6*	*4.5*	*4.7*	*4.8*	*5.3*	—	*5.3*	*5.1*

Source: Institute of Sociology of Ukraine. Natalija Panina. Sociological Monitoring: Ukrainian Society 1994-2005
Note: a 1 means very close distance between nationalities, a 7 means very far in distance.

The table contains indexes of the " national distancing" the mean in a 7-pointed scale of social ("distance") regarding representatives of every nationality and also an Integral Index of national distancing (IIND), i.e. the average value regarding all nationalities except Ukrainians, Russians and the Ukrainian Diaspora. Because during the years of surveys there were changes in the list of nationalities, the table contains (IIND) by 10 nationalities, which were estimated in all monitoring research.

Exhibit E - Corruption Indices

Corporate Corruption/Ethics Indices: Country Averages (Theoretical range of indices 0-100%) – sorted by CGI	1. Corporate Illegal Corruption Index Component	2. Corporate Legal Corruption Index Component	3. Corporate Ethics Index (1+2)	4. Public Sector Ethics Index	5. Judicial / Legal Effectiveness	6. Corporate Governance Index
Country list	(CICI)	(CLCC)	(CEI)	(PSEI)	(JLEI)	(CGI)
Ukraine	**18.0 (103)**	**22.5 (68)**	**20.27 (92)**	**18.8 (84)**	**9.6(103)**	**22.4 (94)**
Poland	**25.3 (85)**	**14.4 (96)**	**19.8 (94)**	**19.1 (83)**	**18.3 (82)**	**26.3(86)**

Source: Table drawn from Appendix of paper: Corruption, Governance and Security: Challenges for the Rich Countries and the World – by Daniel Kaufmann (September, 2004) – Chapter in the Global Competitiveness Report 2004/2005- www.worldbank.org/wbi/governance/pubs/gcr2004.html

Notes: **The values in parentheses are rankings out of 104 countries** (The higher the ranking number the worse the country). For all indices, a higher value implies a higher ethical standard rating given by the country's enterprise sector. The percentage value reflects the share of the country's enterprises providing a satisfactory rating. Given the margin of error in this type of index, it is not warranted to perform seemingly precise comparisons across individual countries having ratings that do not differ vastly from each other; thus, it is also not appropriate to utilize these indices for precise country ratings.

CICC (Corporate Illegal Corruption Component): Percentage firms in the country giving satisfactory ratings (answers 5, 6 or 7) to questions on corporate ethics, illegal political funding, state capture cost, average of frequency of bribery in procurement and active capture, corruption in banking (average of formal money laundering and bribery for loans), and percentage firms reporting 0 percent procurement and administrative bribe shares. CLCC (Corporate Legal Corruption Component): Percentage firms in the country with satisfactory ratings (answers 5, 6 or 7) to the questions on influencing legal political funding and undue political influence. CEI (Corporate Ethics Index): Percentage firms in the country giving satisfactory rating (answers 5, 6 or 7) to questions on index calculated as the average of the percentage of firms' Corporate Illegal Corruption Component and the Corporate Legal Corruption Component. PSEI (Public Sector Ethics Index): Percentage firms in the country giving satisfactory ratings (answers 5, 6 or 7) to the questions on honesty of politicians, government favoritism in procurement, diversion of public funds, trust in postal office and average bribe frequencies for permits, utilities and taxes.

JLEI (Judicial/Legal Effectiveness Index): Percentage firms in the country giving satisfactory ratings (answers 5, 6 or 7) to questions on judicial independence, judicial bribery, quality of legal framework, property protection, parliament and police effectiveness. CGI (Corporate Governance Index): Percentage firms in the country giving satisfactory ratings (answers 5, 6 or 7) to questions on protection of minority shareholders, quality of training, willingness to delegate authority, nepotism and corporate governance

<u>Exhibit F - Transparency International Corruption Index</u>

Transparency International Ukraine-Poland Corruption Perception Index				
	1998		2005	
	CPI score	Rank	CPI score	Rank
Poland	4.6(1.6)	39	3.4 (3.0-3.9)	70
Ukraine	2.8(1.6)	69	2.6 (2.4-2.8)	107
Out of (# of countries)		85		158

Sources: http://www.transparency.org/policy_and_research/surveys_indices/cpi/previous_cpi__1/1998
http://www.transparency.org/policy_and_research/surveys_indices/cpi/2005

Note: Ukraine in 1998 was based on 6 surveys and in 2005 on 8 surveys. Poland was based on 8 surveys in 1998 and 11 surveys in 2005. The numbers in parentheses indicate either standard deviation for 1998 or a confidence range for 2005. The scores are indicators from 1 to 10 with 1 being the most corrupt perception and 10 being the least corrupt.

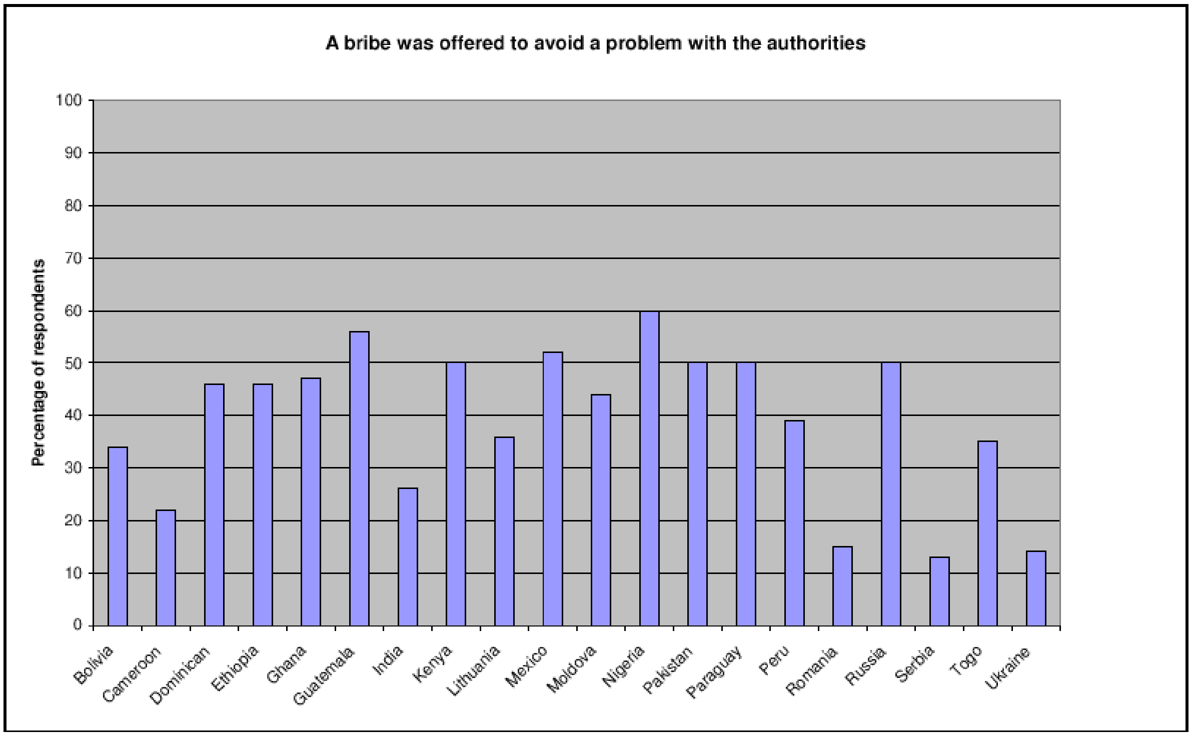
Exhibit G - Trust In Institutions

TRUST INDEX
Mean: scale 1–5 points

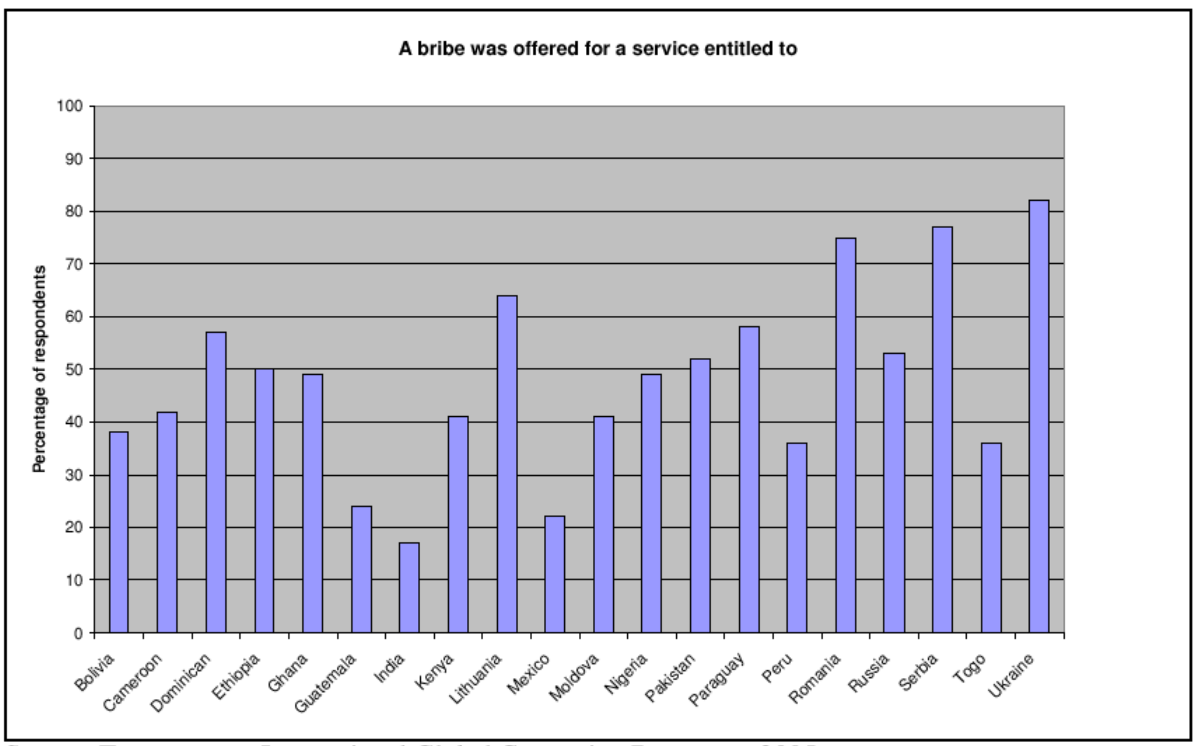
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Family and relatives	4.5	4.6	4.6	4.6	4.5	4.5	4.6	4.5	4.5	4.5	4.4	4.5
Compatriots	3.1	3.2	3.2	3.1	3.2	3.1	3.1	3.1	—	—	3.2	3.4
Neighbors	3.3	3.2	3.3	3.2	3.2	3.2	3.2	3.2	—	—	—	3.3
Colleagues	3.3	3.4	3.3	3.2	3.3	3.3	3.2	3.3	3.5	3.4	3.3	3.5
Church and clergy	3.1	3.2	3.0	3.0	3.0	2.9	3.1	3.1	3.3	3.2	3.3	3.5
Astrologists	2.5	2.5	2.4	2.4	2.4	2.3	2.4	2.4	2.4	2.4	2.3	2.4
Mass media (TV, radio, newspapers)	2.7	2.7	2.7	2.7	2.9	2.9	2.9	2.9	2.9	3.0	2.9	3.0
Tax Inspectorate	—	—	—	—	—	—	—	—	—	2.3	2.3	2.4
Militia	2.3	2.2	2.2	2.2	2.2	2.2	2.3	2.2	2.3	2.2	2.3	2.4
Public Prosecutors Office	—	—	—	—	—	—	—	—	2.3	2.3	2.4	2.4
Courts	—	—	—	—	—	—	—	—	2.3	2.3	2.4	2.4
President	2.3	2.9	2.6	2.4	2.1	2.2	2.7	2.2	2.2	2.2	2.3	3.4
Parliament	2.3	2.1	2.1	2.0	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.9
Government	2.3	2.4	2.3	2.2	2.1	2.1	2.4	2.3	2.2	2.2	2.3	3.1
Local authorities	—	—	—	—	—	—	—	—	2.3	2.4	2.5	2.7
Army	3.2	3.2	3.1	3.0	3.0	3.0	3.1	3.0	3.1	3.0	3.1	3.1
Professional unions	—	—	—	—	—	—	—	—	2.5	2.5	2.6	2.7
Political parties	—	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.2	2.5
Communist party	2.3	2.1	2.1	2.1	2.4	2.4	2.2	2.3	—	—	—	2.3
Directors of state enterprises	2.5	2.4	2.3	2.3	2.3	2.3	2.4	2.5	—	—	—	2.6
Private entrepreneurs	2.4	2.3	2.4	2.3	2.4	2.4	2.5	2.5	—	—	—	2.6
Banks	—	—	—	—	—	—	—	—	2.1	2.2	2.3	2.5
Insurance Companies	—	—	—	—	—	—	—	—	1.9	2.0	2.1	2.2
Charitable foundations, community organizations, etc	—	—	—	—	—	—	—	—	—	—	2.4	2.4

Source: Institute of Sociology of Ukraine. Natalija Panina. Sociological Monitoring: Ukrainian Society 1994-2005
Note: a 1 means no trust in the institution/entity, while 5 means great trust in the institution/entity.

Exhibit H - Bribes in Ukraine



Source: Transparency International Global Corruption Barometer 2005



Source: Transparency International Global Corruption Barometer 2005

Note: The above two graphs refer to the percentage of those who admitted to paying a bribe in the first place, which is around 30% of total respondents.

Exhibit I - Attitude towards privatization of large enterprises

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1. Rather negative	45.8	45.5	49.0	54.0	52.4	51.4	51.8	55.1	51.8	56.1	60.9	38.4
2. Difficult to say	34.2	31.9	31.7	32.3	28.0	29.0	30.0	29.7	26.3	29.1	26.3	25.3
3. Rather positive	24.7	21.7	22.8	18.7	17.5	17.7	17.8	17.8	18.3	18.9	17.5	13.3
No answer	2.7	0.7	0.0	0.1	0.5	0.9	0.8	0.6	0.2	0.2	0.1	0.6
Mean	1.9	1.8	1.8	1.7	1.6	1.6	1.7	1.7	1.6	1.7	1.6	1.5

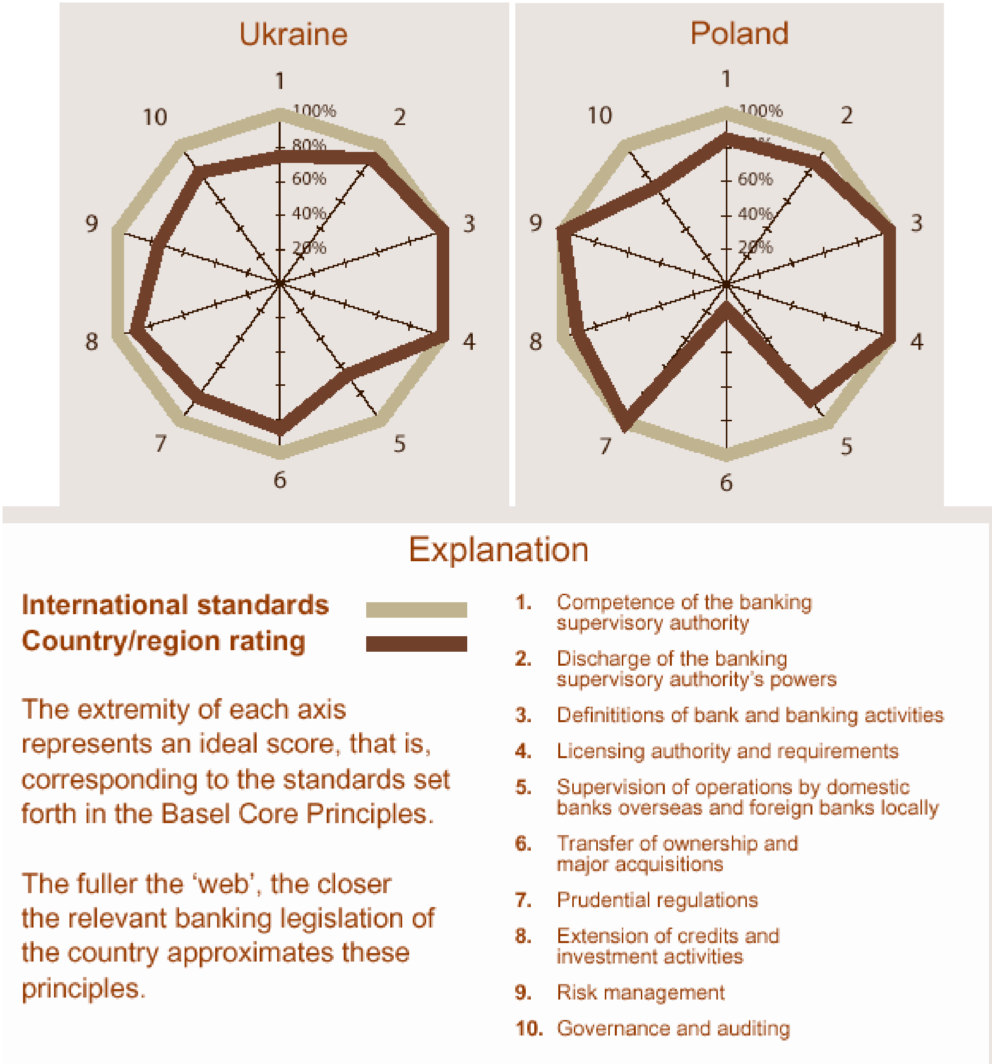
Source: Institute of Sociology of Ukraine. Natalija Panina. Sociological Monitoring: Ukrainian Society 1994-2005
Note: numbers mean percentage of respondents.

Exhibit J.1 - Quality of Banking Legislation

Core Principles for Effective Banking review	
Sections of the EBRD assessment	Ukraine assessment
Competence of the banking supervision authority	Lacks immunity of banking authorities and staff from automatic guilt in the case of banking failure. Poland lacks this as well
Discharge of the banking supervisory authority's powers (does law provide resources needed for objectives to be met)	Ukraine holds the best ranking out of CIS countries. However, it is implied that Central Europe is in line with international standards, while CIS countries may not be
Definitions of bank and banking activities	All EBRD countries comply with this criterion.
Licensing authorities and requirements (sound and clear criteria for licensing banking institutions)	Most EBRD countries comply with this. No problems mentioned for either Poland or Ukraine.
Supervision of operations by domestic banks overseas and foreign banks locally (how good are the licensing requirements for foreign banks opening local branches and local banks opening foreign branches?) "This principle requires banking supervisors to apply prudential supervision to all aspects of business conducted by their banking organizations worldwide. Consolidated supervision requires that supervisors have in place information sharing agreements with host supervisory authorities."	Ukraine had major weaknesses in this area, as the area requires regulation regarding supervision of worldwide branches.
Transfer of ownership and undertaking major acquisitions and equity investments	The Ukrainian law seems to be coming close to International standards in these sections. However, in practice things may be different resulting in the high non-performing loans. Still, as noted in the text of this paper, if the country continues to improve legislation this does not seem like a major problem on route to the EU.
Prudential regulations	
Extension of credit and investment activities	
Risk management	
Governance and auditing	

Source: Cigna, Gian Piero. European Bank of Reconstruction and Development Report: Law in Transition online 2005. October 2005

Exhibit J.2 - Quality of Banking Legislation (Ukraine – 2005 and Poland – 2005)



Source: Cigna, Gian Piero. European Bank of Reconstruction and Development Report: Law in Transition online 2005. October 2005

Notes:
The comparison with **today's** Poland (which is the picture above) is not the purpose of this paper; however, a comparison is presented here for completeness. Basel Core principles are the core principles of effective banking legislation.

Exhibit K - Banking Practice

	Macro Prudential indicator (MPI)	Average individual bank rating	Number of serious systematic risks	Banking System indicator (BSI)
Ukraine	3	D	5	E

Source: EBRD 2005 transition report. Pg. 44

Notes:
MPI is from 1 (lowest risk) to 4 (highest risk)

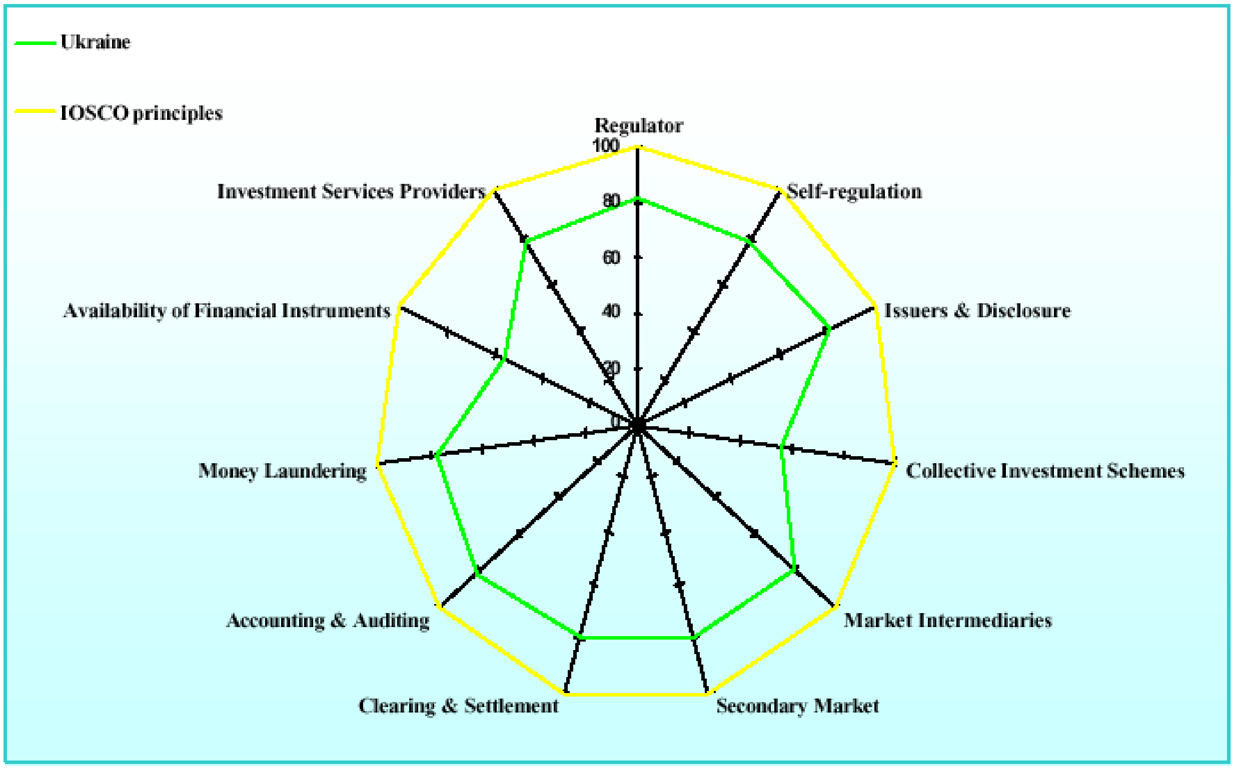
Average individual bank rating and BSI are from A (strong) to E (weak)

To assess macro risks for to the banking system, thresholds for credit growth, national stock market index and the real exchange rate were developed and combined to create the indicator

The following list for systemic risks was used:
Liquidity constraints from one bank to another; widespread use of off-balance sheet operations; simultaneous existence of low bank liquidity, low bank capital ratios and high shares of demand deposits; excessive deposit concentrations; system wide portfolio weakness; exposure to the government; excessive lending to connected parties; high borrower indebtedness or foreign currency mismatches; excessive loan concentrations; poor bank governance, lack of financial transparency or weak bank regulation.

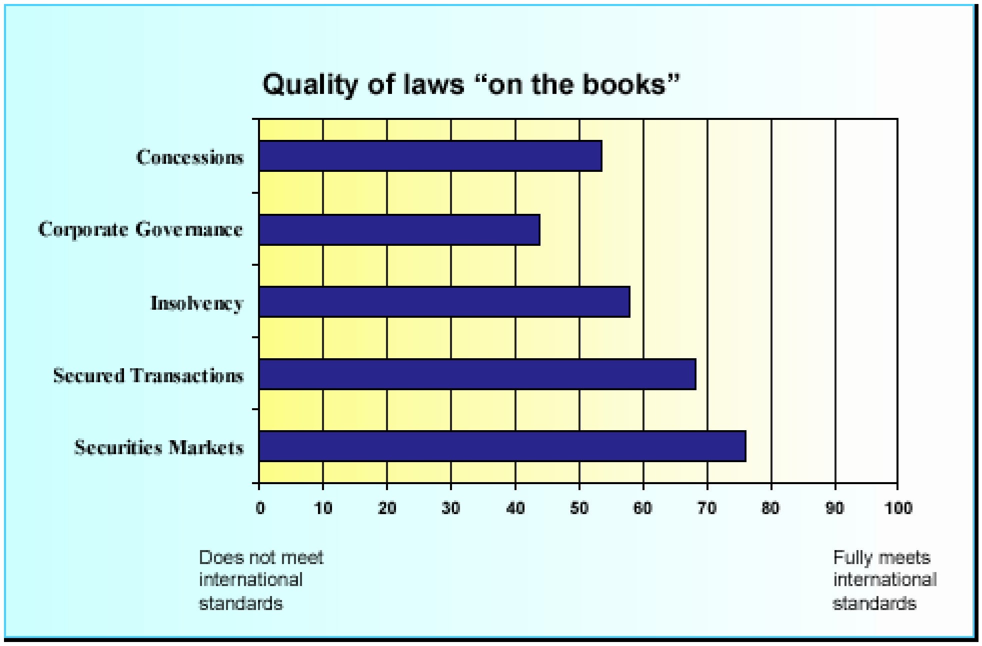
BSI combines column 2 and 3

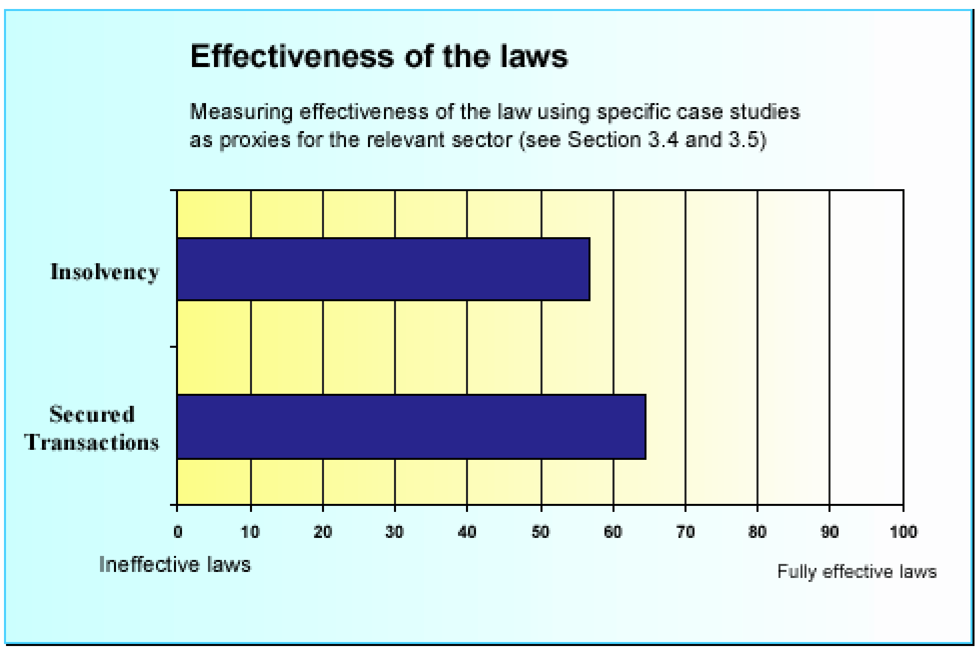
Exhibit L - Quality of Securities Market Legislation- Ukraine 2004



Source: EBRD Strategy for Ukraine 2005-2007
Note: The extremity of each axis represents an ideal score.
IOSCO is the International Organization of Securities Commission

Exhibit M - Commercial laws of Ukraine





Source: EBRD Ukraine Law assessment. Published in 2005

Exhibit N - Commercial Law Classification System for Poland (not the same as Exhibit M)

Box A: Classification system for legal transition indicators*

1. **Extensiveness**

   Legal rules concerning pledge, bankruptcy and company law are perceived as very limited in scope. Laws appear to impose substantial constraints on the creation, registration and enforcement of security over movable assets, and can impose significant notarisation fees on pledges. Company laws do not ensure adequate corporate governance or protect shareholders' rights. Bankruptcy laws are perceived as unable to provide for certainty or clarity with respect to the definition of an insolvent debtor, the scope of reorganisation proceedings or the priority of distribution to creditors following liquidation. Laws in these substantive areas have not been amended to approximate those of more developed countries or those laws that have been amended are perceived to contain ambiguities or inconsistencies.

   Effectiveness

   Commercial legal rules are usually unclear and sometimes contradictory. The administration and judicial support for the law is perceived as rudimentary. The cost of transactions, such as creating a pledge over a movable asset, is prohibitive so as to render the law ineffective. There appear to be no meaningful procedures in place in order to make commercial laws operational and enforceable. There also appear to be significant disincentives for creditors to seek the commencement of bankruptcy proceedings in respect of insolvent debtors.

2. **Extensiveness**

   Legal rules concerning pledge, bankruptcy and company law are limited in scope and are subject to conflicting interpretations. Legislation may have been amended but new laws do not appear to approximate those of more developed countries. Specifically, the registration and enforcement of security over movable assets has not been adequately addressed, leading to uncertainty. Pledge laws may impose significant notarisation fees on pledges. Company laws may not ensure adequate corporate governance or protect shareholders' rights. Laws appear to contain inconsistencies or ambiguities concerning, among other things, the scope of reorganisation proceedings and/or the priority of secured creditors in bankruptcy.

   Effectiveness

   Commercial legal rules are generally unclear and sometimes contradictory. There are few, if any, meaningful procedures in place in order to make commercial laws operational and enforceable.

3. **Extensiveness**

   New or amended legislation has recently been enacted (i.e., within the past five years) in at least two of the three commercial legal sectors that were the focus of the survey. However, the legislation could benefit from further refinement and clarification. Legal rules appear to permit a non-possessory pledge over most types of movable assets. However, the mechanisms for registration of security interests are still rudimentary and appear not to provide parties with adequate protection. There is scope for enforcement of pledges without court assistance. Company laws appear to contain limited provisions for corporate governance and the protection of shareholders' rights. Bankruptcy legislation contains provisions for both reorganisation and liquidation but may place claims of other creditors above those of secured creditors in liquidation.

   Effectiveness

   While commercial legal rules are reasonably clear, administration or judicial support of the law appears to be often inadequate or inconsistent, creating a degree of uncertainty (for example, substantial discretion in the administration of laws and few up-to-date registries for pledges).

4. **Extensiveness**

   Comprehensive legislation exists in at least two of the three commercial legal sectors that were the focus of the Survey. Pledge law appears to allow parties to take non-possessory pledges in a wide variety of movable property and contains mechanisms for enforcement of pledges without court assistance. The legal infrastructure, however is not fully developed to include a centralised or comprehensive mechanism for registering pledges. Company laws contain provisions for corporate governance and the protection of shareholders' rights. Director and officer duties appear to be clearly defined. Bankruptcy law appears to include detailed provisions for reorganisation and liquidation. Liquidators possess a wide variety of powers to deal with the property and affairs of a bankrupt.

   Effectiveness

   Commercial laws are reasonably clear and administrative and judicial support of the law is reasonably adequate. Specialised courts, administrative bodies or independent agencies may exist for the liquidation of insolvent companies, the registration of publicly traded shares or the registration of pledges.

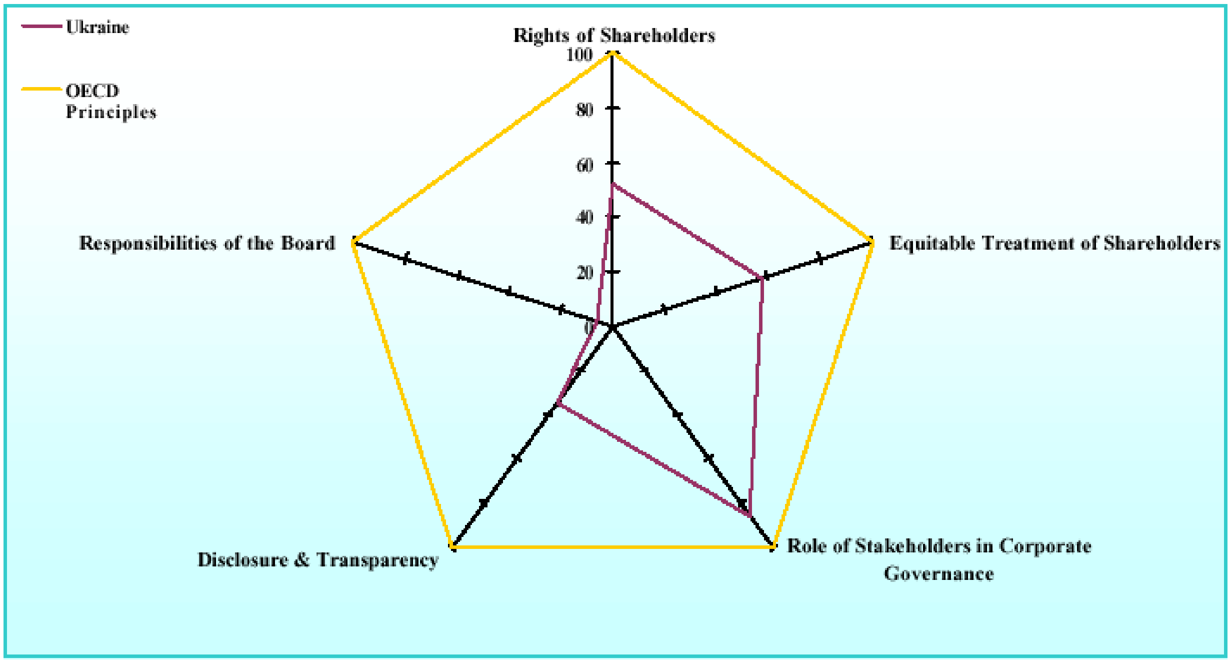
Overall score:

The overall score is the average of the scores given for the two indicators, rounded up where the average did not fall exactly into the existing categories. A "+" after a number is used to indicate countries that have just made it to the highest tier of one category and are within a few points of reaching the next category in the scale. A "-" indicates countries that are at the bottom of a category where a significant improvement is required for that jurisdiction to fall more comfortably within the middle range for that category.

Source: EBRD report: "Law in Transition: Ten years of legal transition." Published Autumn 2002

Note: Extensiveness refers to Quality of laws on the books; Effectiveness refers to quality of implementation

Exhibit O - Quality of Corporate Governance Legislation



Source: EBRD strategy for Ukraine 2005-2007
Note: The extremity of each axis represents an ideal score, i.e., corresponding to OECD principles of Corporate Governance. The fuller the web the more closely corporate governance laws of the country approximate these principles.

Exhibit P1 - Classification System for EBRD Infrastructure Transition Indicators

Telecommunications

1 Little progress in commercialisation and regulation, i.e. minimal degree of private sector involvement, strong political interference in management, lack of cost-effective tariff-setting principles and extensive cross-subsidisation. Few other institutional reforms to encourage liberalisation envisaged, even for mobile phones and value-added services.

2 Modest progress in commercialisation, i.e. corporatisation of the dominant operator and some separation of operation from public sector governance, but tariffs still politically determined.

3 Substantial progress in commercialisation and regulation. Full separation of telecommunications from postal services, with reduction in the extent of cross subsidisation. Some liberalisation in the mobile segment and in value-added services.

4 Complete commercialisation (including the privatisation of the dominant operator) and comprehensive regulatory and institutional reforms. Extensive liberalisation of entry.

4+ Implementation of a coherent and effective institutional and regulatory framework (including the operation of an independent regulator) encompassing tariffs, interconnection rules, licensing, concession fees and spectrum allocation. Existence of a consumer ombudsman function.

Railways

1 Monolithic organisational structures. State railways still effectively operated as government departments. Few commercial freedoms to determine prices or investments. No private sector involvement. Cross-subsidisation of passenger service public service obligations with freight service revenues.

2 Laws distancing rail operations from the state, but weak commercial objectives. No budgetary funding of public service obligations in place. Organisational structures still overly based on geographic/functional areas. Separation of ancillary businesses but little divestment. Minimal encouragement of private sector involvement. Initial business planning, but targets general and tentative.

3 Laws passed to restructure the railways and introduce commercial orientation. Separation of freight and passenger marketing groups grafted onto traditional structures. Some divestment of ancillary businesses. Some budgetary compensation for passenger services. Design of business plans with clear investment and rehabilitation targets. Business plans designed, but funding unsecured. Some private sector involvement in rehabilitation and/or maintenance.

4 Laws passed to fully commercialise railways. Creation of separate internal profit centres for passenger and freight (actual or imminent). Extensive market freedoms to set tariffs and investments. Medium-term business plans under implementation. Ancillary industries divested. Policy development to promote commercial (including private) rail transport operations.

4+ Railway law exists allowing for separation of infrastructure from operations, and/or freight from passenger operations, and/or private train operations. Private sector participation in ancillary services and track maintenance. Establishment of rail regulator and/or implementation of access pricing and/or plans for a full divestment and transfer of asset ownership, including infrastructure and rolling stock.

Source: EBRD 1998 Transition Report

Exhibit P2 - Classification System for EBRD Infrastructure Transition Indicators

Electric power

1 Power sector operated as a government department; political interference in running the industry. Few commercial freedoms or pressures. Average prices below costs, with external and implicit subsidy and cross-subsidy. Very little institutional reform with monolithic structure and no separation of different parts of the business.

2 Power company is distanced from government. For example, established as a joint-stock company, though there is still political interference. Some attempt to harden budget constraints, but management incentives for efficient performance are weak. Some degree of subsidy and cross-subsidy. Little institutional reform; monolithic structure with no separation of different parts of the business. Minimal private sector involvement.

3 Law passed which provides for full-scale restructuring of the industry, including vertical unbundling through accounting separation, setting up of regulator with some distance from the government, plans for tariff reform if effective tariffs are below cost, possibility of private ownership and industry liberalisation. Little or no private sector involvement.

4 Law for industry restructuring passed and implemented providing for: separation of the industry into generation, transmission and distribution; setting up of a regulator, with rules for setting cost-reflective tariffs formulated and implemented. Arrangements for network access (negotiated access, single buyer model) developed. Substantial private sector involvement in distribution and/or generation.

4+ Business separated vertically into generation, transmission and distribution. Existence of an independent regulator with full power to set cost-reflective tariffs. Large-scale private sector involvement. Institutional development covering arrangements for network access and full competition in generation.

Source: EBRD 1998 Transition Report

Exhibit Q1 - Classification System for EBRD Transition Indicators

Competition policy

1 No competition legislation and institutions.

2 Competition policy legislation and institutions set up; some reduction of entry restrictions or enforcement action on dominant firms.

3 Some enforcement actions to reduce abuse of market power and to promote a competitive environment, including break-ups of dominant conglomerates; substantial reduction of entry restrictions.

4 Significant enforcement actions to reduce abuse of market power and to promote a competitive environment.

4+ Standards and performance typical of advanced industrial economies: effective enforcement of competition policy; unrestricted entry to most markets.

Banking reform & interest rate liberalisation

1 Little progress beyond establishment of a two-tier system.

2 Significant liberalisation of interest rates and credit allocation; limited use of directed credit or interest rate liberalisation ceilings.

3 Substantial progress in establishment of bank solvency and of a framework for prudential supervision and regulation; full interest rate liberalisation with little preferential access to cheap refinancing; significant lending to private enterprises and significant presence of private banks.

4 Significant movement of banking laws and regulations towards BIS standards; well-functioning banking competition and effective prudential supervision; significant term lending to private enterprises; substantial financial deepening.

4+ Standards and performance norms of advanced industrial economies: full convergence of banking laws and regulations with BIS standards; provision of full set of competitive banking services.

Securities markets & non-bank financial institutions

1 Little progress.

2 Formation of securities exchanges, market-makers and brokers; some trading in government paper and/or securities; rudimentary legal and regulatory framework for the issuance and trading of securities.

3 Substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearance and settlement procedures, and some protection of minority shareholders; emergence of non-bank financial institutions (e.g. investment funds, private insurance and pension funds, leasing companies) and associated regulatory framework.

4 Securities laws and regulations approaching IOSCO standards; substantial market liquidity and capitalisation; well-functioning non-bank financial institutions and effective regulation.

4+ Standards and performance norms of advanced industrial economies: full convergence of securities laws and regulations with IOSCO standards; fully developed non-bank intermediation.

Source: EBRD 1998 Transition Report

<u>Exhibit Q2 - Classification System for EBRD Transition Indicators</u>

Trade & foreign exchange system

1 Widespread import and/or export controls or very limited legitimate access to foreign exchange.

2 Some liberalisation of import and/or export controls; almost full current account convertibility in principle but with a foreign exchange regime that is not fully transparent (possibly with multiple exchange rates).

3 Removal of almost all quantitative and administrative import and export restrictions; almost full current account convertibility.

4 Removal of all quantitative and administrative import and export restrictions (apart from agriculture) and all significant export tariffs; insignificant direct involvement in exports and imports by ministries and state-owned trading companies; no major non-uniformity of customs duties for non-agricultural goods and services; full current account convertibility.

4+ Standards and performance norms of advanced industrial economies: removal of most tariff barriers; membership in WTO.

Source: EBRD 1998 Transition Report

Exhibit Q3 - Classification System for EBRD Transition Indicators

Large-scale privatisation

1 Little private ownership.

2 Comprehensive scheme almost ready for implementation; some sales completed.

3 More than 25 per cent of large-scale enterprise assets in private hands or in the process of being privatised (with the process having reached a stage at which the state has effectively ceded its ownership rights), but possibly with major unresolved issues regarding corporate governance.

4 More than 50 per cent of state-owned enterprise and farm assets in private ownership and significant progress on corporate governance of these enterprises.

4+ Standards and performance typical of advanced industrial economies: more than 75 per cent of enterprise assets in private ownership with effective corporate governance.

Small-scale privatisation

1 Little progress.

2 Substantial share privatised.

3 Nearly comprehensive programme implemented.

4 Complete privatisation of small companies with tradable ownership rights.

4+ Standards and performance typical of advanced industrial economies: no state ownership of small enterprises; effective tradability of land.

Governance & enterprise restructuring

1 Soft budget constraints (lax credit and subsidy policies weakening financial discipline at the enterprise level); few other reforms to promote corporate governance.

2 Moderately tight credit and subsidy policy but weak enforcement of bankruptcy legislation and little action taken to strengthen competition and corporate governance.

3 Significant and sustained actions to harden budget constraints and to promote corporate governance effectively (e.g. through privatisation combined with tight credit and subsidy policies and/or enforcement of bankruptcy legislation).

4 Substantial improvement in corporate governance: for example, on account of an active corporate control market; significant new investment at the enterprise level.

4+ Standards and performance typical of advanced industrial economies: effective corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring.

Price liberalisation

1 Most prices formally controlled by the government.

2 Price controls for several important product categories, state procurement at non-market prices remains substantial.

3 Substantial progress on price liberalisation: state procurement at non-market prices largely phased out.

4 Comprehensive price liberalisation; utility pricing which approaches economic costs.

4+ Standards and performance typical of advanced industrial economies: comprehensive price liberalisation; efficiency-enhancing regulation of utility pricing.

Source: EBRD 1998 Transition Report

Exhibit R - Ukraine's Trade with the World (2004)

The major import partners				The major export partners				The major trade partners			
	Partners	**Mil euro**	**%**		**Partners**	**Mil euro**	**%**		**Partners**	**Mil euro**	**%**
	World	**25,853**	***100.0***		**World**	**25,293**	***100.0***		**World**	**51,147**	***100.0***
1	**EU**	**9,561**	***37.0***	**1**	**EU**	**7,157**	***28.3***	**1**	**EU**	**16,718**	***32.7***
2	Russia	8,266	***32.0***	**2**	Russia	4,427	***17.5***	**2**	Russia	12,693	***24.8***
3	Turkmenistan	1,492	***5.8***	**3**	Turkey	1,812	***7.2***	**3**	Turkey	2,318	***4.5***
4	China	1,009	***3.9***	**4**	China	986	***3.9***	**4**	China	1,995	***3.9***
5	Turkey	506	***2.0***	**5**	USA	643	***2.5***	**5**	Turkmenistan	1,671	***3.3***
6	Kazakhstan	421	***1.6***	**6**	Romania	501	***2.0***	**6**	USA	984	***1.9***
7	USA	341	***1.3***	**7**	Moldavia	489	***1.9***	**7**	Kazakhstan	730	***1.4***
8	Brazil	308	***1.2***	**8**	Switzerland	395	***1.6***	**8**	Belarus	636	***1.2***
9	Belarus	294	***1.1***	**9**	Belarus	343	***1.4***	**9**	Switzerland	579	***1.1***
10	Japan	227	***0.9***	**10**	Algeria	324	***1.3***	**10**	Romania	540	***1.1***
11	Korea	195	***0.8***	**11**	Bulgaria	320	***1.3***	**11**	Moldavia	538	***1.1***
12	Switzerland	184	***0.7***	**12**	Singapore	314	***1.2***	**12**	Brazil	487	***1.0***
13	Uzbekistan	137	***0.5***	**13**	Kazakhstan	309	***1.2***	**13**	Korea	379	***0.7***
14	India	132	***0.5***	**14**	Egypt	294	***1.2***	**14**	Bulgaria	371	***0.7***
15	Norway	109	***0.4***	**15**	Syrian Arab Rep	284	***1.1***	**15**	Singapore	341	***0.7***
16	Israel	86	***0.3***	**16**	Iran	273	***1.1***	**16**	India	336	***0.7***
17	Malaysia	67	***0.3***	**17**	Thailand	244	***1.0***	**17**	Algeria	328	***0.6***
18	Indonesia	59	***0.2***	**18**	Vietnam	230	***0.9***	**18**	Japan	325	***0.6***
19	Ghana	58	***0.2***	**19**	Saudi Arabia	219	***0.9***	**19**	Egypt	301	***0.6***
20	Hong Kong	55	***0.2***	**20**	India	204	***0.8***	**20**	Syrian Arab Rep	293	***0.6***

Source: EuroStat. Ukraine- EU bilateral Trade and Trade with the World

Exhibit S - Ukraine and Poland Key Statistics

	Ukraine			Poland		
	2003	**2004**	**2005**	**1995**	**1996**	**1997**
GDP (in bil. US$ PPP)	264.0607	300.8254	*315.733*	271.1363	292.8532	317.972
GDP per Capita in US$	1057	1376	*1770*	3622	4080	4094
GDP per Capita (PPP) in $	5566.00	6386.90	*6740.00*	7060	7625	8281
Industry as % of GDP	31	*30*	NA	29.2	27.1	28.1
Agriculture as % of GDP	13	*13.5*	NA	6.4	6.0	5.7
Exports (fob, mil US$)	23080	32675	34290	22895	24389	25712
Imports (cif mil US$)	23021	28997	36141	29069	37045	42245
EU trade as % of trade -Exports -Imports	 32.7 32.27	 28.29 36.98	 NA	 70.5 64.6	 66.2 63.9	 64.0 63.8
Net flows of FDI (as % of GDP)	2.84	2.646	*9.1*	2.631	2.871	3.122
Stock of FDI per head (US$)	140.331	177.76	*340.1*	204.222	298.477	379.907
Inflation (% change in prices)	5.21	9.036	13.52	28.047	19.837	15.086
# of banks (of which foreign owned)	158(19)	160(19)	NA	81(18)	81(25)	83(29)
Asset share of state-owned Banks (%)	9.8	8.0	NA	71.7	69.8	51.6
Current Account balance (% of GDP)	5.767	10.496	*1.1*	0.614	-2.083	-3.654
External Debt (% of GDP)	29.4	*31*	NA	38	30.9	31.7
Public Debt (% of GDP)	29.1	*22.3*	*17*	49.6	43.9	43.0
Budget balance (% of GDP)	-.2	-2.9	*-1.8*	-2.2	-2.2	-1.1
Labor Force (mil.)	*21.21*	*20.85*	*20.53*	17.068	17.076	17.1
Recorded Unemployment	3.6	3.6	3.1	15.2	14.3	11.5
Life Expectancy at birth (male/female)	68 (62.6/74)	68 (62.6/74)	NA	71.9	72.2	72.6
Total Area (sq. km)	603700	603700	603700	311904	311904	311904
Total Population	47.4	47.1	*46.8*	38.404	38.405	38.396
Literacy Rate (in %, age 15+)	99	99	NA	99	99	99
% Of Population under Poverty line	19	NA	NA	18	16.1	15
EBRD Transition indicators:						
Small scale privatization	4	4	4	4	4+	4+
Large scale privatization	3	3	3	3	3	3+
Price Liberalization	4	4	4	3	3	3 (3+)[106]
Trade liberalization	3	3	3+	4	4+	4+
Competition Policy	2+	2+	2+	3	3	3
Banking sector reform	2+	2+	3-	3	3	3 (3+)
Nonblank financial inst.	2	2+	2+	3	3	3+
Telecommunication	2+	2+	2+	NA	NA	(3+)
Electric Power	3+	3+	3+	NA	NA	(3)
Railways	2	2	2	NA	NA	(3+)

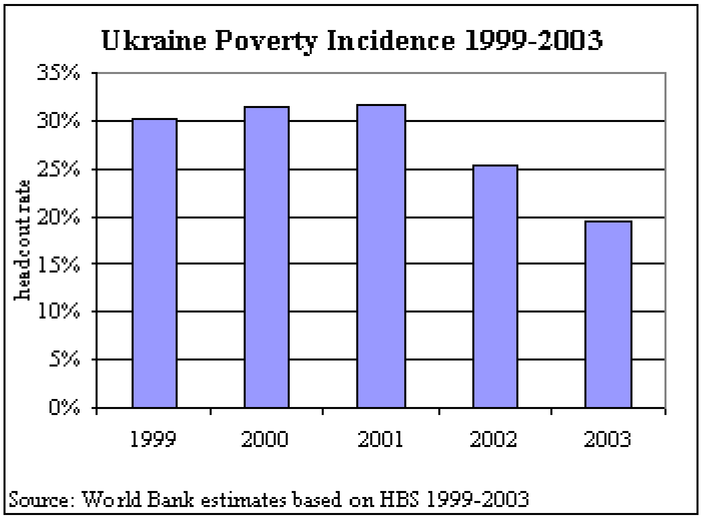
Source: Economist Intelligence Unit (EIU) Country Data, EBRD 1999 Transition report**,** UNICEF. *Italicized* numbers are EIU estimates. Red numbers above the transition indicators are taken from EBRD. NA means not available. Literacy Rate is taken from UNICEF, Ukraine life expectancy is from Ukrainian State Statistics committee. Poverty rate is taken from the UNDP Millennium Development Goal paper (June 2002) for Poland.
Notes: As the numbers are taken from different sources, they vary slightly.

[106] 1998 value is in parentheses if different or if 1997 value is not available.

Exhibit T - Natural Gas Pipelines

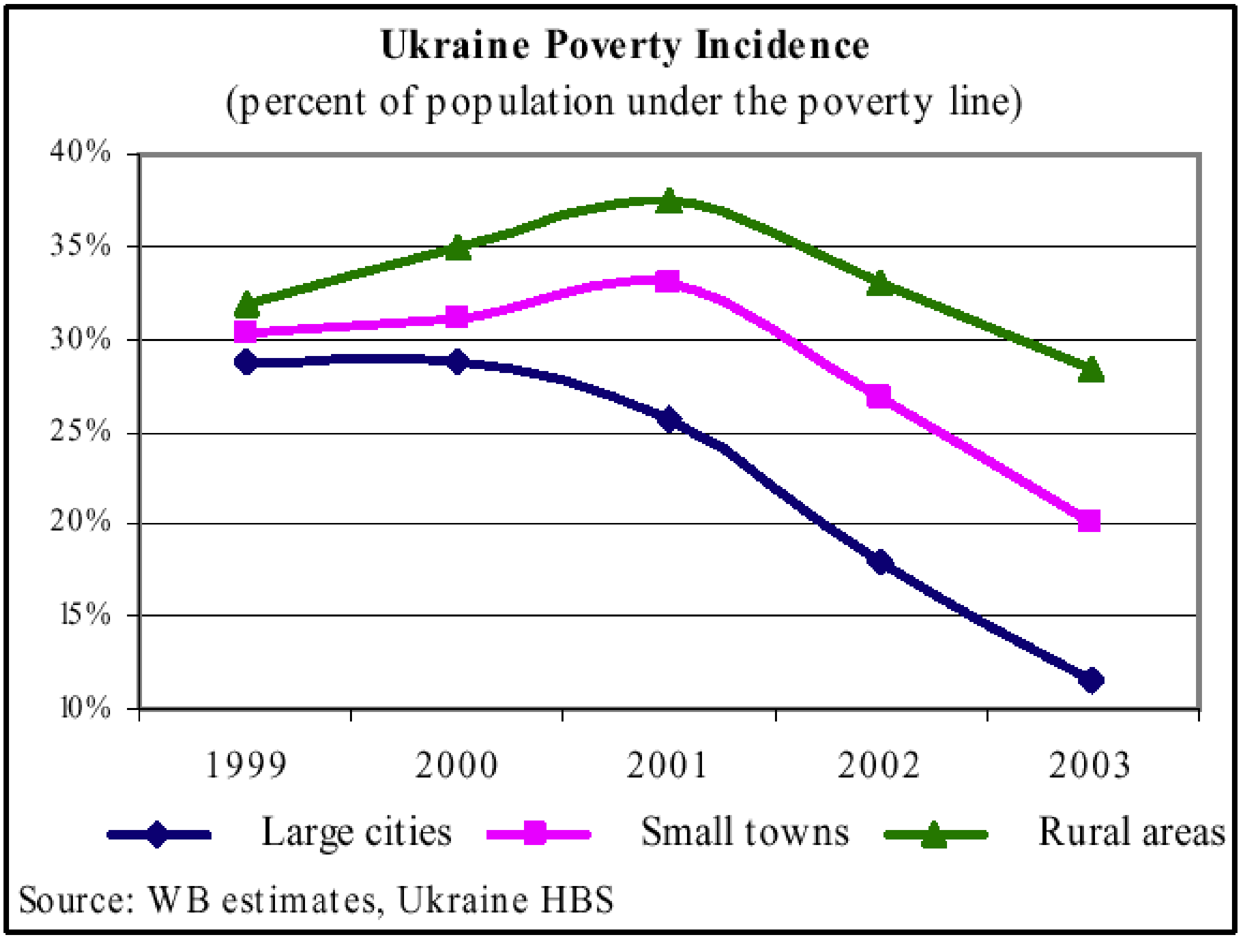
Source: US department of energy (Energy information administration).
http://www.eia.doe.gov/emeu/cabs/Ukraine/Maps.html

Exhibit U - Poverty in Decline



Source for the above two: World Bank Paper. “Ukraine Poverty Assessment: Poverty and Inequality in a growing economy.” http://siteresources.worldbank.org/INTBULGARIA/Resources/305338-1114701796144/ukraine-powerty-pop-slide1.htm

Exhibit V - Urban and Rural Poverty in Ukraine



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