

This publication intends to inform readers about the pre-term parliamentary election in Ukraine scheduled for September 30, 2007. It reflects the views and opinions of The PBN Company's professional staff on issues of concern to voters, business and the international community. It is not a partisan publication and is not funded by any campaign, government or donor organization.

IN THIS ISSUE:

2007 Elections - Executive Summary.... 1

Pre-Term Parliamentary Elections..... 1

Coalition Scenario.....2

Post-Election Governing.....3

Major Political Parties.....3



President Viktor Yushchenko (with back to camera) convenes roundtable of political leaders. Seated left to right are: National Security and Defense Council Secretary Vitaliy Haiduk; Our Ukraine leader Vyacheslav Kyrylenko; Socialist leader Ivan Boki; Prime Minister Viktor Yanukovich; Rada Speaker Oleksandr Moroz; Rada Majority Leader Raisa Bohatyrova; Party of Regions leader Vasyl Kyselov; Opposition Leader Yulia Tymoshenko; and Chairman of the Presidential Secretariat Viktor Baloha.

2007 Elections - Executive Summary

Ukraine is in the midst of pre-term parliamentary elections scheduled for September 30, 2007. Incumbent Prime Minister Viktor Yanukovich and his Party of Regions are poised to capture the plurality of the vote and go on to form a coalition government. Yulia Tymoshenko's bloc is expected to attract the largest group of opposition voters, but President Viktor Yushchenko's Our Ukraine party has strengthened its support base by joining forces with the People's Self-Defense bloc, a popular movement led by former Interior Minister Yuriy Lutsenko. Bickering and rivalry between pro-Russian Blue and pro-Western Orange politicians will prevent government stability from taking hold until the 2010 presidential election, unless consensus is found on amending the constitution.

A fragile government may bode well for the economy and prevent any one financial-industrial group from obtaining the upper hand in public works projects, state privatization tenders and other lucrative government licenses. Business and special interests will have to quietly work with all parliamentary parties to ensure they are not held

hostage to political risks, such as unpaid VAT returns, unexpected state restrictions on exports and other draconian measures. Gas negotiations with Russia this winter will again be tense. A Blue win in September will result in a smaller increase in gas prices, while an Orange win could result in higher "market pricing."

Pre-Term Parliamentary Elections

Political stalemates coupled with payoffs and other corrupt acts led President Viktor Yushchenko to issue a series of decrees dismissing the Verkhovna Rada (Parliament) and calling for new elections. On August 2, Ukraine's political elite began preparing for pre-term parliamentary elections scheduled for September 30. Currently, Ukrainian parties are again promising voters populist initiatives, enticing social spending packages and a new opportunity to form a government coalition.

continued on page 2

Parliamentary Elections *(cont'd)*

The new Parliament will seat 450 MPs according to a proportional representation formula. Of the five parties represented in the outgoing Parliament, opinion polls show only four currently have enough support to pass the 3% threshold for seats in the new convocation: Party of Regions (32%) and the Communists (5%), who make up the outgoing government coalition led by Prime Minister Viktor Yanukovich; and, the Yulia Tymoshenko Bloc (19%) together with the pro-presidential Our Ukraine-People's Self Defense Bloc (16%), who are currently in opposition.

After a fourth-place finish in March 2006 election, the Socialist Party of Ukraine (SPU) is the only party whose ratings have dramatically decreased. As a result, one of the main questions in the September balloting is whether SPU will clear the 3% hurdle. As of late August, SPU has not amassed the necessary support, but the fact that the party's leader, Oleksandr Moroz, is Speaker of the Rada is an intangible asset that the SPU will seek to exploit over the next several weeks. The Socialists, who received 6.3% of the vote during the March 2006 parliamentary poll and surprisingly broke with the Orange bloc to join the current government coalition, are currently hovering between 2-2.5% support. Rural Socialist voters, who are mostly pro-European and therefore Orange supporters, have broken with their party leadership and are now aligning with either the Tymoshenko or pro-Yushchenko parties.

With nearly 15% of all voters still undecided and the political choices essentially the same as in the 2006 parliamentary campaign, little change is expected on Ukraine's electoral map after September 30, though of course some of the occupants of top posts in the Cabinet and Parliament may be reshuffled. The Cabinet of Ministers is formed by the ruling parliamentary coalition; thus in the current distribution of power, the legislative and executive branches were controlled by the parties in opposition to the President. Only the Ministers of Foreign Affairs and Defense, both presidential appointees, remained loyal to Yushchenko.

Coalition Scenarios

Given an almost equal division between pro-Russian and pro-Western Ukrainian voters, experts believe the Blue-Orange rivalry that defined the 2004 presidential contest will continue.

Incumbent Prime Minister Viktor Yanukovich, Yushchenko's chief rival, leads the Blue coalition and

has the support of Ukraine's eastern and southern regions as well as the growing middle class in large cities. Liberal Party of Regions members, particularly billionaire industrialist Rinat Akhmetov, favor a coalition with the pro-presidential Our Ukraine-People's Self-Defense Bloc; however, the likelihood of this scenario is minimal given presidential elections scheduled for 2010. While Yushchenko could in theory support a Blue-Orange coalition that unifies the country; in practice, past political mismanagement has resulted in open political conflicts and policy stalemates. Therefore, Yanukovich's likely coalition partner after the September poll will be the Communist Party, whose elderly anti-NATO supporters favor Yanukovich's pro-Kremlin positions and increased social spending on pensioners.

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Opposition leader and Orange icon Yulia Tymoshenko, who took 22% of the vote in the 2006 poll, is expected to do well on September 30. The pro-presidential Our Ukraine Bloc, which came in third with 14% in 2006, is expected to perform better due to an alliance with the popular People's Self-Defense movement led by Yuriy Lutsenko, and by picking up the support of small democratic parties who have reunited around the President.

With similar political ideologies, the competition between the Yulia Tymoshenko and Our Ukraine-People's Self-Defense blocs will be defined by campaign management and tactics. Should they together receive a majority in the newly elected Parliament, the party with the most votes will have the right to promote its candidate for the post of Prime Minister. Therefore, in this case, the result of the electoral competition between "Orange" blocs would affect not only the distribution of seats in the Parliament, but also the overall structure of the Cabinet of Ministers.

However, for the Orange team to win more votes than the Blue team, Orange voters may have to be motivated to go to the polls by a trigger event such as a large campaign scandal. Otherwise, given continuing economic growth and positive forecasts, Orange voters are likely to stay home, thus enabling the Blue team to prevail by 2-3 percentage points.

Post-Election Governing

After accepting the oath of office, Ukrainian MPs must form a ruling coalition within 30 days, after which the parliamentary majority has another 30-day window to appoint the Cabinet of Ministers. The President nominates the candidate for Prime Minister.

Governing after the election will not be easy no matter which side emerges victorious. Both sides will have

enough votes in Parliament (150 needed) to dissolve the convocation and call for new elections. Therefore, repeating the stalemates of the past will risk the contempt of already unhappy and disillusioned voters. However, there is one element to the political feuding that is expected to continue: businesses across many sectors continue to thrive as politicians are preoccupied with politics and devote less time to meddling in the economy.

Major Political Parties

Party of Regions

Leader:	Viktor Yanukovych				
% 2006 Vote:	32%	# Seats Prev. Rada:	186	Latest Polling %:	32-35%
Voter Base/ Regional Support:	Donetsk, Eastern & Southern regions, urban dwellers, middle class.				
Ideology:	Mix of liberal macroeconomic policy proponents with selective state intervention on microeconomic issues that compete with party business interests.				
Socioeconomic Policy Priorities:	Support for corporate business interests; Proponents of state spending on large public works and infrastructure projects; Increased social spending on state workers, teachers and pensioners; Business interests in state privatization tenders.				
Foreign Policy Orientation:	Supports WTO accession and Ukraine's entry into the Single Economic Space; Russian as a second national language; EU integration; would support NATO entry based on national referendum.				



Yulia Tymoshenko Bloc

Leader:	Yulia Tymoshenko				
% 2006 Vote:	22%	# Seats Prev. Rada:	129	Latest Polling %:	17-21%
Voter Base/ Regional Support:	Kyiv, Central & Western regions, urban dwellers.				
Ideology:	Mix of Social Democrats, Socialists, Solidarism & Liberal interests				
Socioeconomic Policy Priorities:	Support for small & medium business; Transparency in state budget policies and cleaning up corruption in state bodies; Public privatization tenders; Increases in state wages for teachers, workers and pensioners; Increased tax burden on corporate business.				
Foreign Policy Orientation:	Supports WTO accession, EU integration and NATO membership.				



continued on page 4

Major Political Parties *(cont'd)*


Our Ukraine-People's Self Defense Bloc

Leader:	Yuriy Lutsenko, Vyacheslav Kyrylenko				
% 2006 Vote:	14%	# Seats Prev. Rada:	80	Latest Polling %:	13-16%
Voter Base/ Regional Support:	Lviv, Western & Central regions, rural dwellers				
Ideology:	Mix of Liberals, Christian & Social Democrats				
Socioeconomic Policy Priorities:	Proponents of small and medium business; Liberal corporate policies; Reforms in farming and agriculture; Improving social, health and education policies; Anti-corruption policies; Proponents of selling land.				
Foreign Policy Orientation:	Supports WTO accession, EU integration and NATO membership; pragmatic relations with Russia; friendly relations with Poland.				




Communist Party of Ukraine

Leader:	Petro Symonenko				
% 2006 Vote:	4%	# Seats Prev. Rada:	21	Latest Polling %:	4-6%
Voter Base/ Regional Support:	Crimea, Southern & Eastern regions				
Ideology:	Communist				
Socioeconomic Policy Priorities:	Oppose privatization of state enterprises; Oppose paid medicine; Oppose the sale of land; Support increased state spending on pensioners, teachers, medical professionals, and other social policies.				
Foreign Policy Orientation:	Oppose NATO & WTO membership; skeptical about EU integration; support close ties with Russia and membership in the Single Economic Space.				



Socialist Party of Ukraine

Leader:	Oleksandr Moroz				
% 2006 Vote:	6%	# Seats Prev. Rada:	33	Latest Polling %:	2%
Voter Base/ Regional Support:	Odessa, rural dwellers in Central & Eastern regions				
Ideology:	Socialist and Social-Democratic				
Socioeconomic Policy Priorities:	Support increased social spending; Support hourly wage reform; Support subsidies for agriculture; Oppose land sales.				
Foreign Policy Orientation:	Supports EU integration; conditional support of WTO; opposed to NATO membership				



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