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Viktor Yanukovych sees the possibility of Ukraine joining the Customs Union with Russia, Belarus and Kazakhstan

On November 26th, 2010 in Moscow after the Ukrainian-Russian Intergovernmental Commission President of Ukraine announced that he did not rule out Ukraine entering the Customs Union (CU) with Russia, Belarus and Kazakhstan.

He added that, in order to achieve that goal certain amendments to the Constitution of Ukraine should be made, which according to him could be done either in the Parliament or by a National referendum. Earlier, in April, Viktor Yanukovych has expressed an opposite opinion regarding this matter. 'Ukraine has made a choice in favor of joining the World Trade Organization (WTO). Ukraine is already integrated in the WTO and today Ukraine entering the Customs Union would be impossible', - he said.

As a reminder, on November 25th European Parliament adopted a resolution on Ukraine. In this document European legislators are calling on Ukraine to make all effort to finish negotiation on an agreement as to the Association Treaty between the European Union (EU) and Ukraine in the first half of 2011.

Ukrainian politicians expressed various opinions regarding the President's statement.

Head of the Parliamentary Committee on European Integration **Borys Tarasyuk** thinks President's statement concerning joining CU with Russia, Belarus and Kazakhstan is an evidence of his inconsistency. 'Such statements do not comply with the agenda declared by the President and confirmed by him during the most recent EU-Ukraine Summit in Brussels', - B.Tarasyuk said.

National Deputy, member of 'NU-NS' faction **Andriy Parubiy** thinks that European statements of the President are only of declaratory nature. 'In fact, he is trying to gradually bring Ukraine under Russia's influence. By unifying the system of education, by giving Russia our strategic businesses', - the National Deputy noted.

According to the National Deputy, member of the Communist Party faction **Yevgen Tsarkov**, one of the advantages of Ukraine joining the CU with Russia, Belarus and Kazakhstan will be the end of production wars between the countries.

National deputy, member of the Party of Regions **Olexiy Plotnokiv** says that Ukraine's entry into the CU would be a logical step only if Russia, Kazakhstan and Belarus joins the World Trade Organization (WTO). 'When all four states are the members of the WTO, only then there's no controversy about creating a new alliance', - says Mr. Plotnikov.

European politicians do not see any real prospects for Ukraine to join the Customs Union.

Director of the European Center for International Political Economy **Fredrik Erixon** doesn't think that Ukraine will consider seriously joining the CU with Russia, Belarus and Kazakhstan in the near future because there are technical difficulties related to the WTO which will keep Ukraine from taking certain steps in that direction.

Head of the EU-Ukraine Parliamentary Cooperation Committee of the European

Parliament **Pawel Kowal** thinks that the possibility of such agreement with the Russia is not very high. 'I am not also sure that Russia would be really interested in such union because it would create a situation in which they would have to abolish the export duties on gas and oil for Ukraine. The losses for the Russian budget could be greater than incomes.' - P.Kowal said.

Experts think that V.Yanukovych is trying to play a diplomatic game with both the EU and Russia.

Director of Gorshenin Institute **Volodymyr Fesenko** thinks, that President is trying to reassure the Russian Government. 'He did not say that we were ready to integrate or would integrate but made certain allusions for the future. I do not rule out that there's is an element of a tactic game in order not to irritate the Russian colleagues and look for new compromises in particular in the gas sector and on a number of other issues', -V.Fesenko said.

Director of the Institute for Euro-Atlantic Cooperation **Olexander Sushko** agrees that this statement was an attempt to play a certain diplomatic game. 'It is the same 'multi-vectorial' game, which was played by Ex-President **Leonid Kuchma**. Then, in every single capital L.Kuchma said just what the audience wanted to hear. We can also surmise that this step was supposed to serve as an instrument of soft pressure on the EU, as in its negotiations on creation of the Free Trade Zone with Ukraine the EU is very firm on defending the positions of its economic entities, which Ukraine is not very happy about', - A.Suchko said.

President of Ukraine vetoed the Tax Code. Parliament took his suggestions into consideration and adopted a new version of the Code

On December 2d, 2010, Ukrainian Parliament adopted a new Tax Code of Ukraine with amendments suggested by President V.Yanukovych.

The new version of the Tax Code, passed by Parliament partially satisfies the demand of small and medium businesses. Protesters who opposed the adoption of the Code accepted the new version, however, did not end the strike. A spokesman for the National Coordinating Council of Entrepreneurs of Ukraine **Volodymyr Dorosh** announced that the protesters' demands remained the same: an absolute veto on the Tax Code, dismissal of the Government and conduct of the Parliamentary elections in 2011.

'Neftegaz' and 'Gazprom' agreed on conditions, as to the return of gas to 'RosUkrEnergo'

'Neftegaz Ukrainy', Russian 'Gazprom' and 'RosUkrEnergo' (RUE) signed the package deal that resolves a number of issues in the gas sphere.

According to the documents, in compliance with the decision of the Arbitration Institute of the Stockholm Chamber of Commerce, 'Neftegaz' will give back to RUE 12.1 billion cubic meters of gas. RUE is obligated to eradicate its debt to 'Neftegaz' in the amount of 1.7 billion dollars.

As a reminder, 50% of RUE belongs to 'Gazprom', 45% - to Ukrainian businessman, owner of the International Holding company, Group DF **Dmitro Firtash**, 5% - to **Ivan Fursin**.

The Ministry of Fuel and Energy of Ukraine announced that the return of gas would be executed gradually which will allow for preservation of the gas balance in Ukraine and would not lead to any unpredictable events during the heating season

2010-1011. However, according to a number of experts, if RUE decides to export the gas returned by 'Neftegaz', Ukraine might have a serious gap in its gas reserves. As a result, the country might experience a shortage of natural gas and turn out to be unable to survive the winter season.

An expert on energy programs at the Razumkov Center **Volodymyr Omelchenko** thinks, that even if the gas stays on the domestic market of Ukraine with current gas prices, 'Neftegaz' will suffer direct losses, which might constitute up to 2.8 billion dollars.

National Deputy, member of 'BYuT-Batkivschyna' faction, member of the Parliamentary Committee on Fuel and Energy **Olexander Gudyma** thinks, that Ukrainian Government did not do anything to protect its country's interests, as this decision to return 12.1 billion cubic meters poses a direct threat to the energy security of Ukraine.

As a reminder, earlier the Parliament rejected the Draft law on Energy Security of Ukraine, which prohibits using budget money and funds obtained from international financial organizations to settle with RUE. Also the Parliament refused to obligate the Cabinet of Ministers of Ukraine to ban 'Neftegaz' from using natural gas produced for domestic use to eradicate its debt to RUE.

The Government has decided not to invest in problem banks 'Nadra', 'Ukrgezbank', 'Kiev' and 'Rodovid Bank'

Vice Prime Minister for Economic Issues Sergiy Tigipko says, that the Government is not planning to recapitalize 'Nadra' Bank this year.

Due to a difficult economic situation in the country we are not going to increase the capital value of the three state-owned banks ('Kiev', 'Ukrgezbank' and 'Rodovid Bank') which have been privatized and acquired by the state. Today these banks have to solve their problems on their own. In case of necessity at the expense of additional investors", - S.Tigipko said.

However, according to various experts, these institutions will not be able to stay afloat without state assistance. At the same time, according to them, their liquidation will not have any impact on the bank system of the country.

As a reminder, the World Bank repeatedly advised Ukraine to reject the idea of saving problem banks using the budget funds.

The case against 'ArcelorMittal Kriviy Rig' accused of contraband is being stalled intentionally

Representatives of 'ArcelorMittal Krivoy Rog' accused of the contraband of coal are saying, that they can not get their case to a court room.

According to them, the hearings have been postponed already twice because the Prosecutor's Office did not deliver the documents related to the case to the Court and, therefore, the hearing could not began. Director General of 'ArcelorMittal Kriviy Rig' **Rinat Starkov** says, that his company is very concerned with the approach that responsible state authorities are using handling the case where a company is accused of contraband of coking coal. 'It seems like the Security Service of Ukraine and the Prosecutor General's Office are not in any hurry to show up in the court room and start the proceedings", - he said.

The company says, that the situation is aggravated by the fact, that the seized coal has reached a critical temperature and the risk of fire is increasing by day.

As a reminder, 67.7 thousand tons of coal that was shipped to the plant were seized by the State Customs Service in September 2010. Customs officers had questions regarding the cost of the imported crude.

Earlier Prosecutor General's Office of Ukraine (PGOU) filed a lawsuit in the Kiev Commercial Arbitrage demanding to find null and void the agreement to sell 'Krivoriizhstal's shares to ArcelorMittal Duisburg GmbH (part of the international holding company Mittal Steel, owned by the Indian billionaire **Lakshmi Mittal**. Only after **V.Yanukovych's** promised in France not to reprivatize 'Krivoriizhstal' PGOU had dropped the case.

Russia acknowledges the 'South Stream' Project is costly and unreasonable

Director of the The Russian Foundation for Energy Security Konstantin Simonov calls the 'South Stream' project expensive and unnecessary.

'It's not a secret, that the 'South Stream' pipeline will be very costly. Russia should avoid building expensive and unnecessary pipelines. What is the alternative to the 'South Stream' project? I think it's the Ukrainian Gas Transportation System (GTS)', - K.Simonov said. However, the expert noted, Ukraine will be able to get guaranteed transit volumes from Russia only on condition of creating a joint enterprise on the basis of 'Neftegaz' and 'Gazprom'.

As a reminder, earlier, Head of the Permanent Mission of Ukraine in the EU, **Konstantin Yelisseyev** said, that Ukraine saw the 'South Stream' only, as a political project designed by Russia to put pressure on Ukraine.

In the meantime, Ukraine and Russia continue discussions in the matter of creating a joint enterprise on the basis of 'Neftegaz' and 'Gazprom'. Namely, during the visit of President **V.Yanukovych** to Moscow on November 26th, the Minister of Fuel and Energy **Yuriy Boyko** and Chairman of the Board of Directors of 'Gazprom' **Olexiy Miller** discussed the resources that 'Gazprom' can offer to create the joint enterprise. Also, Y.Boyko and A.Miller started the negotiations concerning creation of two more joint enterprises. One will deal with the gas extraction from the coal reserves on the territory of Ukraine and the other will develop the Black Sea shelf.

Russia and Ukraine can not divide the Kerch Strait – Viktor Yanukovych

Kiev and Moscow can not come to an agreement regarding the division of the Kerch Strait.

V.Yanukovych made this announcement in Kiev during his meeting with Chairman of the Federation Council of the Federal Assembly of the Russian Federation **Sergiy Myronov** on November 29th, 2010. 'The issue of division of the Kerch Strait remains unresolved. There are suggestions from both sides, but they do not meet our needs', - said V.Yanukovych.

As a reminder, Ukraine insists, that the dividing line should be drawn where the old soviet border between the Crimea region of the USSR and Krasnodar region of the RSFSR used to lie. Russia pushes for the joint use of the Kerch Strait.

The Ministry of Foreign Affairs of Ukraine: Moldova's sovereignty and territorial integrity is the key to the regional stability

Ukraine is interested in preservation of Moldova's sovereignty and territorial integrity.

This position was voiced by Director of Information Policy Department of the Ministry of Foreign Affairs of Ukraine **Oleg Voloshyn**. Any shifting of borders in Europe, no matter what prompts it or whether it's justified 'might lead to the

destabilization and unpredictable consequences in the architecture of European security', - he added.

Earlier, President of Romania **Trajan Basescu** said, that Moldova might become part of his country in the next 25 years.

Vice Prime-Minister of Moldova **Viktor Osipov** called for renewal of official negotiations in the '5+2' (parties to the conflict - Moldova and Transdnestria, sponsor states - Ukraine and Russia mediator - the OSCE and observers - the US and the EU) format in order to find a cross-cutting Transdnestria conflict resolution preserving Moldova's sovereignty and territorial integrity.

The Gorshenin Institute has asked experts about the key positive and negative aspects of the resolution on Ukraine adopted by the European Parliament.

MEP, Member of the Delegation to the EU-Ukraine PCC Marek Siwiec noted that he had voted in favour of this resolution. 'It is always important to bear in mind that a glass is always half empty and half full. In this respect the European Parliament has pointed out in this resolution the weaknesses of Ukrainian democracy. However, MEPs do not condemn changes that the EU's neighbor has undergone during past few years'. Marek Siwiec also explained why the resolution was adopted after the summit, and not before: 'In most cases, the European Parliament adopts a resolution as a result of certain events. The most important is to avoid the impression that the EP wants to influence internal situation of a country. Adopting this document during previous plenary session in Strasbourg, could give such a feeling.' When commenting on the wishes stipulated in the resolution as for finalizing the negotiations for establishment of the Free Trade Area between Ukraine and the EU by mid 2011, Marek Siwiec mentioned that there is no deadline as such. 'However, the resolution encourages Ukraine to finalize the talks on FTA', - he said.

Director of the European Centre for International Political Economy Fredrik Erixon thinks that the resolution is fairly balanced and it sets out a good case for deeper EU-Ukraine relations. 'I had preferred to see stronger language on the possibility of Ukrainian accession to the EU in future. I also would have liked to see a greater focus generally in Europe on the economic reform needs in Ukraine and how Europe could help Ukraine to speed up economic reforms and spearhead the IMF-demanded reforms. But the resolution reaffirms advancements on the Association Agreement and endorses a quick move to conclude the FTA negotiations. It also calls for speeding up negotiations over visas. It is also good for Ukraine that the EU is active on matters concerning flawed electoral laws and practices, and deteriorating media freedoms in Ukraine. A Europe that is silent on worrying developments over media freedoms would not be a true friend to Ukraine, just an unprincipled and opportunity-seeking partner that could not be trusted to accommodate the long-term interest of Ukraine', said the expert. Fredrik Erixon shared his opinion that the European Parliament is really worried about media freedoms and the overall conditions for political pluralism in Ukraine. 'Ukraine still has a long way to go before it could qualify for full membership in the EU, and there has been too many incidents lately in Ukraine over the status and integrity of political and media pluralism for the European Parliament not to raise the concerns. For the moment the EP has decided to continue endorsing the trade and association agreement track, and generally see such agreement as helpful to the development of political and media freedoms in Ukraine. That can change, however, if conditions continue to deteriorate. It is not unlikely, let alone unthinkable, that the European Parliament will want to disrupt trade and association agreement negotiations of things get worse', thinks the expert. According to him, Ukraine will not seriously consider a customs union with Russia, Belarus and Kazakhstan anytime soon. 'There are WTO-technical problems that I think will prevent such action. I am also convinced that Brussels knows that the first priority of Ukraine is to go for deeper trade relations with the EU. But there is a growing awareness that "time is of essence" and that a free trade area could be very helpful to Ukraine (and the EU) and thus merits endorsement regardless of the larger political considerations', - he said..

Chair of the Delegation to the EU-Ukraine Parliamentary Cooperation Committee Pawel Kowal mentioned that the resolution seems like a well-balanced compromise between the political factions in the European Parliament. 'On the one hand we have some critique of the last local elections, which as I mentioned in my report did not create a new, positive standard and we clearly see that the European Parliament is not particularly happy with recent problems with the media. But we find in resolution also some constructive statements - concerning especially the developments in economical and visa issues pointed during the EU-Ukraine Summit in Brussels', said the expert. At the same time, Pawel Kowal noted that adopting the resolution before the EU-Ukraine summit would have clearly created a situation in which its results could be worse for Ukraine. 'As we know, the previous resolution tabled by the European People's Party was very critical for the Ukrainian government even before the local elections. That is why some MEPs wanted to postpone the voting on the resolution in order to fully evaluate the process of voting. We were trying to give Ukraine a chance which it clearly deserved. The problem is that Ukraine did not fully take this chance', he thinks. The expert mentioned that it was not easy for the European Parliament to make the resolution on Ukraine balanced. 'The 31 October local elections were a step back on the way towards the European integration - let's make it clear. The European Parliament is concerned with the issue of TVi and TV5 stations, some signs of intimidation of journalists and doubts about the media coverage during the election campaign. The fact that Batkivshchyna was actually deprived of the right to take part in the elections in three oblasts was the Parliament's main concern. This situation can create a problem for the Ukraine in the future. I feel that this was the last time when the Parliament acted in a well-balanced manner. We expect Kyiv to continue political and economical reforms, what is in the interest of each Ukrainian citizen. Ukrainian government simply cannot let itself to commit mistakes, especially now', he thinks. Pawel Kowal shared his opinion that Ukraine has made a substantial economic progress towards the customs union with the European Union. At the same time, he thinks that the possibility of making a similar deal with Russia is not high. 'We should remember that Ukraine is a part of WTO and Russia is not. I am not also sure that Russia would be really interested in such union because it would create a situation in which they would have to abolish the export duties on gas and oil for Ukraine. The losses for the Russian budget could be greater than incomes. And I am sure that president Yanukovich would not agree to the Belarusian version of the customs union - with limited set of goods. He is too much European in his thinking than many observers think. On the other hand Ukraine may not be interested in strengthening the competition between its and Russian metalurgy enterprises. If the government thinks it is good for Ukraine, than European Union will not mind, as long it is guided by principles of democracy', - said Pawel Kowal.

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