

Gorshenin *Weekly*

ISSUE #17 11/05/2010

**The Local Elections in
Ukraine did not meet
the European
standards****The Local Elections in Ukraine got underway on Sunday, October 31st.**

Many European observers expressed their opinion that local elections in Ukraine did not meet the standards set by the Council of Europe, in particular as to their transparency, fairness and professional conduct. This opinion was expressed namely by the Head of the Delegation of the Congress of Local and Regional Authorities of the Council of Europe **Gudrun Mosler-Tornstrom**. The European Union (EU) Committee for Regions representative **Teet Kallasvee** notes that the election proved the weakness of the new law «On Local elections» adopted only three months prior to the elections. High Representative of the EU for Foreign Affairs and Security Policy **Catherine Ashton** expressed her concern regarding the accounts of violations in the course of voting in Ukraine which undermine people's trust in the electoral process. Similar concerns were also voiced by the European Parliament (EP) Deputy, Co-Chairman of the EU-Ukraine Parliamentary Cooperation Committee **Pawel Kowal**. He noted that the final report on Ukrainian local elections prepared by the EP observers would focus on the preparations for the elections, their conduct and the vote count.

The President of the European People's Party **Wilfried Martens** thinks that the local elections in Ukraine were held with a significant deviation from the democratic standards. Along with that personal envoy of the OSCE Chairman-in-office for elections **Marat Sarsembayev** claims he did not notice any factors working in favor of a ruling party. Also he noted that all parties had been presented in the election commissions proportionally. The Head of the Ukrainian Office of Konrad Adenauer Foundation **Niko Lange** said that based on the results of the local elections Viktor Yanukovich had seized control over the majority of local councils in Ukraine. «Local authorities, administration and police use the same old methods, the opposition remains divided and the freedom of speech restricted», - the experts said.

Member of the Venetian Commission **Marina Stavniychuk** also criticized election campaign which according to her seriously undermines Ukraine's international image. «This was the dirtiest electoral process in all years of Ukraine's independence», - M.Stavniychuk said. Along with that the Head of the Delegation of Verkhovna Rada of Ukraine (VRU) to the PACE **Ivan Popesku** thinks that there were only technical violations in the course of the local elections in Ukraine. Also he added that despite certain difficulties in general the elections were democratic.

The United States (US) Government said that the level of transparency and fairness of these elections was significantly lower in comparison with the last presidential elections. The US blames the Law «On Local Elections» adopted by VRU in July for all the problems that occurred on the election day.

The President of Ukraine **V.Yanukovich** also admitted that the local elections were not flawlessly organized. He announced the creation of a special working group to improve the Ukrainian election laws which with the help of international experts would focus on preparation of legislative initiatives on complex and systematic refinement of the election mechanisms in Ukraine.

The Head of the Party of Regions Faction in VRU **Alexander Yefremov** said that these elections were held with fewer violations comparing to those in 2006. According to him, it would be the right thing to do to acknowledge today that these elections proved to be yet one more step towards the democracy in Ukraine.

The Minister of Foreign Affairs of Ukraine **Konstantin Gryshchenko** assured that the Ukrainian Government would closely cooperate with the opposition, in particular in those areas where opposition parties took victory.

Opposition Parties of Ukraine «Batkivschyna», «Reformy i Poryadok», Narodniy Rukh Ukrainy «Narodnaya Samooborona», Zashitniki Otchizny Party, «Ukrainskaya Platforma» in their joint statement declared that the local elections had not been either democratic or free, neither had they met the European standards. According to these parties the absence of a stronger reaction on the part of the European and the world democratic community regarding the large-scale abuses in the election campaign that led to the distortion of the Ukrainian people's will would be perceived by the Ukrainian Government as a carte blanche for future attacks on democracy, human rights and freedoms and creation of the authoritarian regime in Ukraine.

IMF Mission has arrived in Ukraine

On November 3d the International Monetary Fund (IMF) mission came to Ukraine to start the process of revising the conditions of the stand-by credit program.

According to the Vice Prime-Minister for Economic Affaires **Sergey Tigipko** the negotiations with the mission will be difficult as the parties will have to discuss such issues as balancing the state budget, Value Added Tax (VAT), «Naftogas»'s budget, the Tax Code and other problematic topics. «The most difficult part will be the retirement reform», - says the Vice Prime-Minister.

Along with that during the meeting with the Prime-Minister of Ukraine **Nikolay Azarov** the Head of the IMF Mission **Athanasios Arvanitis** said that Ukraine was on the fast track of getting back the trust of international financial institutions.

As a reminder, Ukraine had received the first tranche of a new credit from IMF in the amount of 1.89 billion dollars. The second tranche of this credit is expected in December however Ukraine has to fulfill all its obligations set by the cooperation agreement with the IMF.

Ukraine is loosing its position in international economic ratings

In the «Doing Business Report 2011» prepared annually by the World bank and International Finance Corporation Ukraine has dropped two positions since last year and was ranked 145th.

Thus, Ukraine remains second to worst country in the Commonwealth of Independent States (CIS) to conduct business after Uzbekistan that was ranked 150th.

Ukraine has also lost its positions in the World Economic Forum's Global Competitiveness Index and was ranked 89th among 139 countries. In this rating Ukraine has dropped 7 positions. In terms of reliability of its bank system Ukraine was ranked 138th which is the worst position among all participants. As to the independence of the judicial system Ukraine took 134th position.

VRU delays adoption of the anti-corruption laws and the Law «On free access to public information»

VRU refused to use as a foundation and sent back to the first reading the Draft Law «On measures of the state financial control of the public service».

This draft was prepared in accordance with provisions of Articles 7 and 8 of the United Nations Convention Against Corruption.

VRU also postponed the adoption of the Law «On free access to public information». The author of this draft, Head of VRU Committee for Freedom of Speech and Information **Andrey Shevchenko**, member of BYuT Faction, explained that he had initiated postponing of the adoption of this legislation in order to conduct negotiations with the Presidential Administration. «There's a hope that we would be able to convince our opponents to make this draft into a law», - he said. Deputy Head of

The South Stream gas pipeline project is not economically viable - expert opinion

VRU (BYuT Faction) **Nikolay Tomenko**, in his turn, thinks that nobody in the current Government would agree to adopt this law as it would reveal their businesses.

As a reminder, earlier Deputy Head of the Presidential Administration **Anna Herman** said that President Yanukovich would make all efforts to make sure that VRU adopted the Law «On free access to public information» as soon as possible.

Minister of Foreign Affairs of Ukraine Konstantin Gryshchenko on October 29th said that the 20 billion dollar international project South Stream that is supposed to be constructed bypassing Ukraine was «too expensive» and «not needed at all».

«Part of this amount would be sufficient to improve the capacities of Ukrainian gas transport system and bring them to the levels that are needed - from 120 billion cubic meters to 180 cubic meters a year», - he stressed out.

According to the leading expert on energy of the US Center for Strategic and International Studies **Edward Chow**, the South Stream project is indeed not economically viable. Russia is just using it as an instrument to blackmail Ukraine. Along with that Director of the Russian Center for Political Information **Alexey Mukhin** says that the denouncement of the South Stream project would be a serious image defeat for Prime-Minister of Russia **Vladimir Putin** and his team.

As a reminder, earlier **N.Azarov** noted that the construction of the Nord Stream gas pipeline could not be stopped any more but there was still a chance to convince Russia to walk away from the South Stream project.

Pridnestrovie initiated the deepening of socio-economic ties with Ukraine

President of Pridnestrovian Moldavian Republic (PMR) Igor Smirnov during his meeting with the special envoy from Ukraine on Pridnestrovie peace resolution Igor Harchenko announced his intention to boost the cooperation with Ukraine and sign the agreement of cooperation in socio-economic sphere.

Earlier the Minister of Foreign Affairs of Ukraine **K.Gryshchenko** suggested Russia to withdraw its troops from Pridnestrovie

As a reminder, Ukraine is one of the parties to Pridnestrovie peace negotiations in a «5+2» format: parties to the conflict - Moldova and Pridnestrovie, sponsor states - Ukraine and Russia, mediator - the OSCE and observers - the US and the EU.

Russia and Ukraine have not come to an agreement on the Kerch Strait

On November 2nd in Kiev, Ukrainian and Russian delegations conducted one more round of negotiations to demarcate the Sea of Azov, the Black Sea and the Kerch Strait.

The parties did not manage to find a consent on delimitation of Kerch Strait, the next round is scheduled to take place in December 2010 in Moscow.

As a reminder, Ukraine insists on keeping the border with Russia across the Kerch Strait, that existed during the Soviet Union. At the same time Kiev does not reject the idea of joint exploitation of this channel on the basis of parity. Minister of foreign Affairs of Russia **Sergey Lavrov** announced that Russia does not consider the lines made by the Soviet Government in the waters of the Kerch Strait to be administrative frontiers and thinks that these lines were only drawn to make it more convenient to conduct business in the strait.

Has Ukrainian Air Transportation Market been monopolized? - Experts

The State Property Fund of Ukraine (SPFU) intends to sell state-owned shares of «International Ukrainian Airlines» (IUA) - 61.6% of shares, and «AeroSvit - Ukrainian Airlines» - 22.4% of shares. Gorshenin Institutes asked the experts whether the state would benefit from the sale of its stake in Ukrainian airlines and what Ukrainian and foreign companies might be interested in buying these assets as well as what awaits Ukrainian air transportation industry in the future.

Vice President of the Center for Corporate Relations Research Vyacheslav

Butko thinks that the sale of the state-owned stake in IUA and «AeroSvit» is a reasonable step. «Based on the size of its stake in «AeroSvit» state has no blocking powers. Formally Ukraine has 61.1% of shares in IUA, but according to a trustworthy insider source, in reality this operator is managed by a large European airline, which officially has about 22.5% of IUA. Another IUA's shareholder EBRD owns 9.9% of the carrier and has unified its position with the European airline mentioned above. Hence the state of Ukraine does not play any remotely deciding role in the management of either IUA or «AeroSvit». Therefore it would be only logical to sell its stakes in these companies», - V.Butko says. However in his opinion the probability of «AeroSvit»'s privatization is much higher. «Regarding IUA, if a minority shareholder is in fact managing the company why would it bother to spend money buying extra shares? This shareholder would be much more interested in conserving this situation, preserving the status quo by hindering the privatization of IUA», - the expert says.

The Vice President of the Ukrainian Union of Industrialists and Entrepreneurs (UUIE), the Head of the Monitoring Council of «MT-Invest», Miroslav Tabakharniuk, PhD also says that the state of Ukraine should sell its stakes in both companies. «The state has already proved a number of times to be a bad owner. If there are no strategic interests in the company the state should sell its stake. Besides it should do it fast and on the basis of fair competition having offered open access to the process to all potential buyers», - the expert says. Among potential domestic buyers he mentioned the «Privat» Group. According to the expert, to be able to sell the shares to foreign companies the state should promote this process, so that any potential buyer could get the maximum amount of information about the companies and form an opinion about the investment attractiveness of these assets. «For instance, one of the Arabic companies is looking for opportunities to create or buy an airline in Ukraine. It would make a great potential buyer, wouldn't it? But they need more information and an open access to the process», - M.Tabakharniuk said. According to the Vice President of UUIE, Ukrainian air transportation industry thanks to its geographical position is very attractive and has a lot of potential and can become a very good base for transit air transportation through Ukraine. «However we have to simplify our regulatory system, eliminate corruption in the industry to make it more attractive for foreign companies. The more open the market becomes the faster it develops», - M.Tabakharniuk said.

According to Gorshenin Institute expert Denis Skvortsov Ukrainian air transportation market needs new big players. «The SPFU's indent to sell state-owned stakes in IUA and «AeroSvit» creates favorable conditions for both domestic and foreign companies to enter the Ukrainian air transportation market. After the

purchase of the Ukrainian air company «Roza Vetrov» by the «Privat» Group, the market share of this buyer rose to 60%. Today we can already talk about the monopolization of this industry by a single financial group. For Ukrainians this might mean the further increase in air fares. The key requirement for the development of the industry is fair competition and only the emergence of new players who have serious financial potential for growth and strengthening of their positions in Ukraine can ensure that», - the expert says. Along with that Denis Skvortsov notes that recently Ukrainian assets became less attractive to investors. «Cancellation of privatization of «Luganskteplovoy», the attempt to return to the state of Zaporozhye Aluminum Complex, the conflict between the Prosecutor General's Office of Ukraine and «ArcelorMittal Krivoy Rog» and a number of other conflicts, in my opinion, prompt among potential investors serious hesitations and fear for the future of their investments. If this trend continues, it is possible that investors will consider not investing more in the Ukrainians companies but rather focus on figuring out the possible ways of pulling their money out of Ukrainian market with the least amount of losses possible», - D.Skvortsov said.

Director of the Analytical Department of Financial-Analytical Group «Pro-Consulting» Alexander Sokolov thinks that the state of Ukraine would benefit from the sale of its stake in «AeroSvit». «The state has only 22% of shares. Majority of shares directly or through affiliated structures are controlled by one investor - the «Privat» Group. Therefore the state does not have any real control over the management of the company, hence it doesn't make sense for it to hold on to its stake», - A.Sokolov says. As to IUA, according to the expert, it's a whole different game. «The state has 61% of shares. considering the potential of air transportation industry in Ukraine is rather high, the growth rate of this market promises to be high as well. We can say that it's reasonable for the State to keep its stake in this company» - the expert says. A.Sokolov also notes that «Privat» Group is interested in buying shares of both companies. «As of today, «Privat» Group already controls the majority of the air transportation market in Ukraine. And this deal will be crucial for this player to get full control. That's why they need both «AeroSvit» and IUA», - he says. Along with that the expert says that the purchase of the state-owned stake in IUA by one of the foreign investors would increase the competition on the Ukrainian air transportation market. «It has to be a strategic investor - a company that has an air transpiration business in another country. Also we need quite large investments aimed at both improvement and development of the air fleet as well as the development of the infrastructure. That requires big and immediate investments», - the experts says.

Our contact information:

4, Chapayeva street, office 14
Kiev 01030, Ukraine
+38 044 230 4962
+38 044 230 4966 f
kipu@kipu.com.ua



For more information please visit our website
www.kipu.com.ua