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**Ukrainian MPs
continue working on
new electoral draft law**

On 14 November 2011, a temporary special commission for drawing up a new electoral law continued its work.

The commission was set up on 3 November 2011. It is noteworthy that it has not achieved any results in its first week of work. The main reason can be attributed to the disagreements regarding the key provisions of the electoral draft law which arise among the MPs representing both the majority and the opposition

In particular, the majority MPs insist on the adoption of their draft of the electoral law which was mostly drawn up by a working group headed by Ukrainian Justice Minister **Oleksandr Lavrynovych**. This document proposes that 50 percent of Ukrainian MPs are elected through party lists and the other 50 percent under the first-past-the-post electoral system. Additionally, it envisions raising the electoral threshold from 3 percent to 5 percent and imposing a ban on the participation of blocs consisting of parties at elections.

Representatives of the opposition agree to adopt the draft law drawn up by Lavrynovych's working group as a foundation for a new law. However, they demand several amendments to the current draft. In particular, the opposition insists that party blocs be allowed to run in the elections, the threshold be no higher than 4 percent and no more than 30 percent of MPs [150 people] be elected under the first-past-the-post electoral system.

If the MPs representing the majority refuse to satisfy the demands of the opposition, the latter intends to stop participating in the commission's meetings.

The Ukrainian news and analysis website Lb.ua quoted Ukraine's parliamentary speaker **Volodymyr Lytvyn** as saying that the commission would not manage to agree on a unified position regarding the electoral law. He stressed that "there will be 250-270 votes in the parliamentary chamber in order to adopt as a foundation the draft proposed by the majority MPs."

If the commission does not present a new bill on elections by 17 November 2011, Parliament will consider those draft laws which were submitted earlier. At present, five draft laws are registered in the Supreme Council of Ukraine: four of them from the opposition and one from the majority.

We shall remind you that on 7 November 2011, the rapporteur of the Council of Europe Parliamentary Assembly (PACE), **Mailis Reps**, said that the Assembly is unlikely to vote at its January session for extreme measures of putting pressure on Ukraine. This situation might change in half a year, she added. "The concerns have to do, first and foremost, with the coming parliamentary election. If the electoral legislation is used in a certain way, then your country will have really serious problems," Reps noted.

In response, Ukrainian Justice Minister Lavrynovych said that the PACE had no right to threaten Ukraine. "Because if members of the European Council say in this manner that they caution, warn and threaten, I believe that the very much respected PACE members are not entitled and have no right for such statements," he opined.

**Opposition leader
Yuliya Tymoshenko
faces fresh charges**

The State Tax Service of Ukraine has accused Yuliya Tymoshenko of concealing 165m dollars.

On 10 November 2011, the Ukrainian State Tax Service's Main Investigation Directorate accused the leader of the opposition Fatherland party, former Prime

Minister **Yuliya Tymoshenko** of organizing the concealment of foreign currency earnings worth over 165m dollars. Besides, she faces charges of embezzling budget funds and evading taxes to the value of over 5.9m dollars.

According to the Ukrainian State Tax Service's Main Investigation Directorate, Tymoshenko committed such acts by launching a financial payment plan for material assets for the Yedyni Enerhetychni Systemy Ukrayiny (YESU) corporation and by concealing revenues with the help of offshore companies.

We shall remind you that on 4 November 2011, customs police resumed an investigation into the four cases linked to the YESU activity in 1996-97. They deal with an alleged failure to pay taxes in the second half of the 1990s when Tymoshenko headed the YESU corporation.

The former Ukrainian deputy prosecutor-general, **Mykola Obykhod**, believes that former Prime Minister Tymoshenko might face up to 12 years behind bars if she is convicted.

It is well known that on 11 October 2011, the Kiev Pecherskyy district court jailed Tymoshenko for seven years.

For his part, Tymoshenko's lawyer and YTB MP **Serhiy Vlasenko** said that the dates for reopening the criminal cases over the YESU activities in 1996-97 against Tymoshenko had expired. He also mentioned that these criminal cases had been already launched ahead of parliamentary election back in 2001. "Now these cases are reopened in order to remove Tymoshenko from the electoral arena," Vlasenko opined.

Just to remind you, on 11 October 2011, the Kiev Pecherskyy district court sentenced Tymoshenko to seven years behind bars. According to a former prime minister's lawyer, **Yuriy Sukhov**, on 13 December 2011, Kiev's appeals court will hold a preliminary hearing of an appeal submitted to overturn the judgment of the Kiev Pecherskyy district court which jailed Tymoshenko for seven years.

Kyiv, Moscow working out "technical aspects" of gas arrangements

Ukraine and Russia have moved gas talks to a technical stage.

As Energy Minister of Ukraine **Yuriy Boiko** announced on November 10, 2011, Ukraine and Russia have started the technical adjustment and implementation of the arrangements settling disputable issues in the gas talks between the sides. The presidents of the two countries reached the principle agreement in Zavidovo [Russia] on September 24, 2011.

It should be noted that Energy Minister of Ukraine Boiko and Gazprom Chairman **Alexei Miller** held another round of gas talks in Kyiv on November 9, 2011. Ukrainian President Viktor **Yanukovich** also took part in the negotiations.

In turn, Parliamentary Speaker **Lytvyn** said that the government will pass the draft law on the state budget for 2012 to the parliament after the completion of the Ukrainian-Russian gas talks. Earlier, Prime Minister of Ukraine **Mykola Azarov** said that the negotiations with the International Monetary Fund (IMF) will be continued after the gas contracts are revised.

It is worth mentioning that Naftogaz Ukraine borrowed 550 million dollars from Russia's Gazprombank to make payments for Russian gas under the current contract.

Gazprom expects decline in gas supplies through Ukraine's gas transportation system

It should be noted that during the roundtable held at the Gorshenin Institute on November 8, 2011, experts expressed the opinion that Ukraine has lost the moment to revise the price for Russian gas. See more details on page 7.

Following the launch of the Nord Stream pipeline, the Ukrainian gas pipeline system (GTS) may be loaded only if the demand for gas in Europe rises.

"At the moment we will see a decline [in gas supply volumes] due to the present demand for gas at the expense of transit through Ukraine. But if the demand grows, the Ukrainian pipeline system will also be loaded," Deputy Director General of Gazprom Export **Sergei Chelpanov** said.

According to mass media reports, the Energy Ministry estimates Ukraine's losses from the launch of the Nord Stream pipeline at 700m dollars.

Just to remind you, the first string of the Nord Stream gas pipeline was commissioned on November 8, 2011.

Government to reorganize Naftogaz of Ukraine

The government is asking Parliament to allow restructuring of Naftogaz Ukraine.

In particular, on November 8, 2011, Parliament registered a government bill granting the Cabinet of Ministers of Ukraine the right to make decisions on restructuring and privatization of the state enterprises operating the main pipelines.

It should be noted that under the present legislation, any restructuring of the abovementioned oil and gas facilities is prohibited.

Crimean Council of Ministers appoints new chairman

On 8 October 2011, former Ukrainian Interior Minister Anatoliy Mohylyov was appointed as the chairman of Crimea's Council of Ministers.

The chairman of the Mejlis, the parliament of the Crimean Tatars, **Mustafa Dzhemilev**, believes that this appointment may deteriorate the regional situation. "This looks like a provocation directed against the Crimean Tatars," he noted.

The representative of the Ukrainian president in parliament, MP of the ruling Party of Regions **Yuriy Miroshnychenko**, pointed to a problem in relations between Mohylyov and the Crimean Tatars.

According to the Lb.ua website, Mohylyov's relations with the Crimean Tatars have been strained after the Falcon special-purpose police unit supervised by Mohylyov dismantled tents of Crimean Tatar businessmen on top of the Ay-Petri mountain in November 2007. The businessmen contended that the authorities were obstructing the legalization of their companies. In January 2008, Mohylyov wrote in his article in the Krymskaya Pravda (Crimean Truth) newspaper that the Crimean Tatars were accomplices of **Adolf Hitler** and indirectly justified their deportation from Crimea in May 1944.

It is noteworthy that upon his appointment, Mohylyov told journalists on 8 November 2011 that his statements regarding the deportation had been incorrectly interpreted.

Tax Service, Interior Ministry have new heads

The law-enforcement agencies of Ukraine have undergone a reshuffle.

In particular, on 7 November 2011, Ukrainian President **Viktor Yanukovich** dismissed **Vitaliy Zakharchenko** from the post of head of the State Tax Service of Ukraine and appointed him interior minister. At the same time, **Oleksandr**

Klymenko, who previously served as Zakharchenko's deputy, became the head of the Tax Service.

It is well known that former Ukrainian Interior Minister **Anatoliy Mohylyov** was appointed as the prime minister of Crimea.

Experts believe that new appointments signal the strengthening of the presidential personal entourage or the so called "family" group. Pundits and the mass media speculate that Zakharchenko and Klymenko are close to Yanukovich's son, **Oleksandr Yanukovich**.

It is noteworthy that like President Yanukovich, Zakharchenko and Klymenko are originally from Donetsk Region. Zakharchenko is 48 years old and is a lieutenant-general of the tax police. Klymenko is 30 years old and has six years of experience of working in the state agencies.

NEWS:

- The speaker of the Supreme Council of Ukraine, **Volodymyr Lytvyn**: Parliament does not have enough votes to decriminalize the Criminal Code article which was used to bring charges against Tymoshenko.
- **Oleksandr Turchynov**: the Fatherland party has already collected 1m signatures for early presidential and parliamentary elections.
- Ukrainian Deputy Foreign Minister **Pavlo Klymkin**: initialing an association agreement between Ukraine and the EU may take place after the Ukraine-EU summit.
- The Ukrainian government has initiated the parliamentary ratification of an agreement on setting up a free trade area between Ukraine and the Commonwealth of Independent States (CIS).
- MP of the Party of Regions **Valeriy Konovalyuk**: in the near future, Parliament may set up a multi-faction group to support Ukraine's participation in the Euroasian Economic Union.
- Ukrainian First Deputy Prime Minister and Economy Minister **Andriy Klyuyev**: Ukraine uses its approval of Russia's accession into the World Trade Organization to leverage its negotiations on amending the provisions of the Russian-Ukrainian gas contracts.
- International consulting company McKinsey: the Ukrainian banking market is the most fragile in Western Europe due to high risks, problematic loans and the dependence on foreign capital.

- The international gold reserves of Ukraine were reduced by 2.3 percent to 34.162bn dollars in October 2011.
- The head of the parliamentary healthcare committee, **Tetyana Bakhteyeva**: “Ukraine occupies 150th place among 223 countries in the world for average life expectancy. The average life expectancy in Ukraine is 69 years.”
- Ukrainian President **Viktor Yanukovych** has signed a law which cancels the mandatory requirement to put all the court decisions into the existing state registry of court judgments on the Internet.
- The head of the all-Ukrainian citizen campaign Vpered (Forward), **Andriy Panaetov**: on 1 December 2011, several public organizations intend to stage an all-Ukrainian protest of businessmen called “Revising government books.”
- MP of the Yuliya Tymoshenko Bloc (YTB) **Andriy Senchenko**: over the past few months, the personal staff of the internal troops have been training intensively in Crimea to quell citizen street protests.
- Romanian Foreign Minister **Teodor Baconschi**: we have nothing against the territorial integrity of other countries.

“Ukraine has lost the moment to revise the price for Russian gas” - experts

The Gorshenin Institute held the round table discussion “What will be the outcomes of Ukraine-Russia gas row?” on 8 November 2011.

The energy security expert, Bohdan Sokolovskyy, has said that Ukraine lost the right time to start the process of reviewing the price of Russian gas. “As of today, Ukraine has already lost the right time to review the price of gas – the right time was in March-April last year”, Sokolovskyy said. He also said that today, when the terms of the gas contract with Russia are actually accepted by making payments under this contract for one and a half years, there is no point in reviewing the price unless there are no strategic consequences here.

Moreover, at the round table discussion Sokolovskyy said that Ukraine should not be afraid of reducing volumes of Russian gas pumped through the Ukrainian gas transport system even if gas transit is stopped completely. Sokolovskyy recalled that as of today test pumping of gas through the Nord Stream gas line was stated, and this gas line will be filled with gas also at the expense of cutting the transit of Russian gas through the Ukrainian gas transport system. “Today is a symbolic date for Ukraine. If it happens that in the future Ukraine stops being a gas transport country, this is not a big deal. We gain as many as 1.5bn dollars per year on transporting gas and this is definitely not the price we can allow to pay for independence. Ukraine, with its 45 million population, can easily recover this amount. That is why the present government shall not stop shedding crocodile tears and share the gas transport system with Russia only to allow something to be pumped through Ukraine”, Sokolovskyy said.

Sokolovskyy also said that Ukraine will get rid of many problems if it stops pumping Russian gas to Europe. “We will get rid of the headache that comes over almost every three years as another gas row and accusations of us stealing Russian gas. No transit – no problems”, Sokolovskyy said. He also recalled that an attempt to set up a trilateral (Ukraine, Russia, EU) consortium to modernize and operate the Ukrainian gas transport system for once already failed back in 2002. “At that time, the German chancellor Gerhard Schröder gave his consent to take part in the consortium with Ukraine and Russia. But when he consulted with serious business in Germany, he realized that big businessmen won't invest in a consortium like that. No, when Europe promotes the third economic package, notorious European companies are even more unlikely to go for this consortium. If it ever happens, it can only be sort of a shallow company that may take the proposal in exchange of a bribe and this way or another, but at the end the Ukrainian gas transport system will be split between several owners”, Sokolovskyy said.

The President of the Q-Club Kiev International Energy Club, Oleksandr Todiyshchuk, has said that during the trial of former Prime Minister **Yuliya Tymoshenko** the international community had a chance to realize the importance for Ukraine of the problem to fulfill the gas supply contracts with Russia of 2009. According to Todiyshchuk, before the trial over the Tymoshenko case was started, people in Europe had only a superficial understanding of the conditions of supply of Russian gas to Ukraine. “They turned on the tap releasing the gas flow, and Europe felt comfortable. But now many Europeans are surprised to know that we really pay this price of gas. It means that with all the

negative effect, this legal case brought some benefit to Ukraine as well. Even common people in the EU member states are now aware of how much it cost Ukraine to solve the gas conflict with Russia in January 2009. And now, even with some delays, the public opinion in Europe turns on Ukraine's side”, Todiychuk said adding: “Russians also understand that the price for Ukraine is not fair, but they continue using the Kharkiv agreements [signed in early 2010 extending duration of the Russian Black Sea Fleet stay in Ukraine in exchange of discount on the gas price] saying that they have already made us a present in the form of 100 dollars discount, so what else do we want them to do? Gazprom works hard to create an opinion in the West that Ukrainians demand more and more discounts every time”, Todiychuk said.

Todiychuk also said Ukraine failed to build a systemic approach in response to dependence on Russian gas. “Of course, some steps have been taken, but this is not enough for Ukraine to use them as arguments in talks with Russia”, he said. According to Todiychuk, Ukraine should have paid more attention to economic consumption of gas and opening new deposits of gas.

The director of the economic programmes at Nomos Center, Mykhaylo Honchar, has said that many European experts believe the problem is not only with the gas deal signed with Russia in January 2009, but also in earlier agreements with Russia. “In 2009 to a great extent we were harvesting the grain from the seeds planted in January 2006. Everyone remembers that Ukraine has never enjoyed better support from Europe than in January 2006. The gas row of 2006 was received in Brussels as a sort of punishment for the Orange revolution. However, both in 2006 and in 2009 the Russians managed to find tools of corrupt impact on the Ukrainian political and oligarch government allowing Russian to achieve their own objectives and making Ukraine lose the EU's support”, Honchar said.

Expert also said that the current Ukrainian government team is not able to hold talks with Russia to review the price of gas. “I'd like to attract your attention to the statement made by Russian Finance Minister **Aleksei Kudrin** who repeatedly urged removing any privileges in export of gas to other countries to help solve problems with the Russian state budget. They can really do this. However, if Russia does not like any aspect of solving the problem with Ukraine, no matter if it is a gas-related issue or anything else, Russia may raise the price of gas without any privileges”, Honchar concluded.

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