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The IMF is satisfied with Ukraine yet is bringing forward more demands to continue the cooperation

Head of the International Monetary Fund (IMF) mission in Ukraine Thanos Arvanitis said that Ukraine had fulfilled all main obligations within the framework of the cooperation program with the IMF.

Prime-Minister of Ukraine **Nikolay Azarov** predicts that by the end of 2010 the Board of Directors of the IMF would decide on granting Ukraine the second tranche of the loan in the amount of 1.6 billion dollars.

Along with that, according to the Ukrainian media, the IMF has put forward a number demands which Ukraine has to meet in order to get the second tranche. In particular Ukraine has to launch its retirement reform. The Verkhovna Rada of Ukraine (VRU) has to pass the law on sanctions against those citizens who avoid paying their utility bills and write into law Ukraine's intention to fulfill its obligation as to increasing the gas prices for the population.

According to the former Acting Minister of Finance **Igor Umanskiy** there is one more condition that the IMF brought forward. «Considering the real situation that we are in right now, the key compromising factor that will allow the IMF mission to tell the Board of Directors that Ukraine is moving forward is the second sequester of the state budget», - I.Umanskiy said. Prime-Minister N.Azarov excludes this possibility. According to him, the state budget can get additional funds from the process of privatization of the state-owned telecommunication company «Ukrtelecom». «Batkivshyna» Party Leader **Yulia Tymoshenko** called on international financial organizations to monitor closely how the funds given to Ukraine are being used. Along with that Nikolay Azarov declared that Ukraine had not spent a penny of the first tranche given by the IMF. «We need these funds not as a resource to cover current needs but rather as a reserve to guarantee protection from the risks that the first stage of reforms might bring and also as a signal to international investors that Ukraine can be trusted again and relied on as a solid partner», - he said.

Economists and politicians have expressed various opinions as to the future potential of cooperation between Ukraine and the IMF.

According to the Executive Director of the International Bleyzer Foundation **Oleg Ustenko**, the state budget might face serious dangers if Ukraine doesn't get the second tranche of the stand-by loan by the end of this year. Vice-President of the Center for Economic Development **Alexander Koshyk** is sure that all funds granted by the IMF will be used to patch up the budget gaps and maintain all social programs for the population. Leader of the BYuT-Batkivshyna faction in VRU **Ivan Kirilenko** expressed his doubts as to the transparency of the use of granted funds by the Ukrainian Government. National Deputy, member of NU-NS **Yuriy Kostenko** fears that the practice of using IMF loans to cover Ukraine's current needs puts Ukraine in the danger of repeating the Argentina scenario - default and selling the land to foreigners. The Head of the Institute of the Economic Research and Political Consultations **Igor Burakovskiy** thinks that the main problem is the rational use of borrowed funds. «If we can not use our loans in an efficient manner - this is a problem of the state that becomes a borrower», - I.Burakovskiy said. Along with that, Director of the National Institute for Strategic Research **Andrey Yermolayev** pointed out that the funds allotted by the IMF represented support for the state in the times of crisis and not a direct investment in a particular sector of the national economy. Deputy Director of the Institute of the World Economy and International Relations of the National Academy of Sciences of Ukraine **Valeriy Novitskiy** thinks that Ukraine has to look for its own model of development and not rely on external assistance.

Massive protests are taking place in Ukraine against adoption of the new Tax Code

Entrepreneurs protesting against the adoption of the new Tax Code threaten the authorities to continue the strikes with no fixed term.

«We demand that the VRU removes the Tax Code from their agenda and fire everybody, who have discredited themselves drafting this document», - it says in the entrepreneurs' address to the VRU, the President, the Cabinet of Ministers of Ukraine (CMU) and local authorities. Should President of Ukraine **Viktor Yanukovych** sign this draft into law, entrepreneurs promise to initiate a national referendum asking to impeach of the President and dismiss the VRU. Along with that the protesters declare themselves free from affiliation with any political power.

Main provisions of the Tax Code that concern its opponents are elimination of the fixed tax, toughening of the unified tax, expanding of powers of tax authorities that will allow them to arrest entrepreneurs' merchandise and bank accounts.

President of Ukraine V.Yanukovych announced that these protests were prompted by the unwillingness on the part of businesses to pay taxes. Prime-Minister **N.Azarov** added that the Tax Code served the interests of the majority of Ukrainian people. According to him adoption of the new Code will encourage investors to put money into Ukrainian economy. Deputy Head of the Party of Regions **Mikhail Chechetov** says that the new Tax Code is designed to eliminate the shadow economy and provides for the possibilities to have an open and transparent business. National Deputy, member of the Party of Regions **Vladislav Lukyanov** says that they have reached an understanding with business representatives on many problematic issues regarding the new Tax Code.

National Deputy, member of the BYuT-Batkivschyna faction **Sergey Teryekhin** declared that the majority of the opposition parties did not even participate in the discussions regarding the Tax Code, as practically none of the amendments proposed by the opposition has been taken into consideration. Sergey Teryekhin is sure that the new Tax Code is designed to liquidate small and medium businesses. National Deputy, member of the Party of Regions, Head of the Ukrainian Union of Industrialists and Entrepreneurs **Anatoliy Kinakh** shares this opinion, as well as the Head of the Board of Directors of the Institute for Support of Regulatory reform in Ukraine **Vladimir Dorosh**. According to the first Deputy Head of «Batkivschyna» party **Alexander Turchinov** the Government is eradicating small and medium businesses in order to establish an authoritarian regime in Ukraine. **Y.Tymosehanko** called on the international community to limit its dealings with the Ukrainian Government in response to the elimination of small and medium businesses.

According to the Honored Jurist of Ukraine, member of the Academy of Sciences **Vladimir Don** there is no need to adopt a new Tax Code in Ukraine as tax legislation in Ukraine is in a very good shape.

As a reminder, on November 16th, 2010 the VRU began the consideration of the Draft Tax Code, which according to N.Azarov will be adopted no later than November 19th, 2010.

The VRU has agreed to pay «RosUkrEnergo» with the funds from the state budget and the IMF loans

The VRU rejected the Draft Law «On energy security of Ukraine» that would ban using state budget money and funds received from the international financial institutions to settle with RosUkrEnergo (RUE).

Also the VRU refused to obligate the KМУ to prohibit the National Company «Neftegaz Ukrainy» to use natural gas initially produced to satisfy Ukraine's

domestic needs to eliminate its debt to RUE. Earlier «Batkivschyna» Party Leader, former Prime-Minister **Y.Tymoshenko** asked the Head of the IMF mission **T.Arvanitis** to pay special attention how Ukraine used the funds granted by the IMF. According to her these funds can be used to pay off Ukraine's debt to RUE.

Along with that, Head of the ad hoc investigation commission of the VRU, National Deputy, member of NU-NS, **Roman Zvarych** announced that the commission was not able to conduct a full and comprehensive investigation as to the RUE's alleged corrupt activities, involvement of the authorities and the arrest of the former Head of the Customs Service **Anatoliy Makarenko**. He attributed it to the fact that part of the documents necessary for the investigation, were classified by the Security Service of Ukraine (SSU).

As a reminder according to the decisions of the Arbitrage Institute of the Stockholm Chamber of Commerce from March 30th and June 8th of 2010 Ukraine has to give RUE back 11.1 billion cubic meters of natural gas, pay 197 million dollars and give 1.1 billion cubic meters of natural gas in compensatory damages.

Ukraine is planning on extending the grain quotas. Growers threaten with protests

The Minister of Agricultural Policies Nakolay Prisyazhniuk thinks that the Cabinet of Ministers of Ukraine will extend imposing quotas on grain till July 1st, 2011, the final decision is expected to come through in December 2010.

Besides the Head of the State Committee on Regulatory Policies and Entrepreneurship **Mikhail Brodskiy** said that the State had cancelled VAT refunds for grain traders.

Ukrainian Farmers declared they would resort to mass protests demanding the Government to cancel the quotas.

As a reminder Ukraine's harvest this year exceeded 40 million tons. Export potential of the country constitutes about 16 million tons however Ukrainian growers can not export their grain freely as on October the CMU has imposed quotas on grain export in the amount of 2.7 million tons.

As a result of this measure Ukrainian grain traders are buying grain from growers on the internal market paying prices lower than the market prices. According to the experts the Government of Ukraine is interested in lowering the grain prices as it is not capable of paying the market price for the grain to fill the National grain reserves. The President of the Farmers and Private Landowners Association (FPLA) **Nikolay Mirkevich** thinks that such position of the authorities will lead to the bankruptcy of many domestic growers and the sowing campaign might be endangered. The Head of the Strike Committee of the FPLA **Leonid Kirichenko** says that Ukrainian agrarians have already asked the President and the Government to take into account their concerns but never heard back from either. Director General of the Ukrainian Agrarian Federation **Sergey Stoyanov** says that the CMU's decree imposing export quotas is not legitimate as it violates the Law «On State support of the Agricultural sector».

After imposition of quotas on grain export the United States (US) Trade Mission in Ukraine said such actions on the part of the Ukrainian Government make questionable Ukraine's reliability as a trade partner. The European Commission says that this measure might have a negative impact on the negotiations about the creation of the Free Trade Zone. According to a number of Ukrainian and Western

experts such actions of the Ukrainian Government contradict Ukraine's obligations as a member of the World Trade Organization (WTO). However N. Prisyazhniuk said, that they were not expecting any sanctions from the WTO and the expert of the Ukrainian Institute for Strategic Research **Dmitriy Pokryshka** explains that the WTO rules allow for imposition of temporary quotas.

As a reminder on November 12th the Ministry of Economy of Ukraine has issued the licenses for grain export. Majority of the quotas were granted to three Ukrainian Companies «Kernel-Trade», «Serno» and «Nibulon» (50.78%). The distribution took place a week earlier than the announced deadline for applications. As a result majority of the large foreign companies such as Cargill, Toepfer International, Noble Group, Louis Dreyfus, Soufflet Group did not get the right to export their grain.

The Party of Regions admitted to the fact that Ukraine chose the Russia's path

National Deputy, the Party of Regions member Nikolay Romaniuk declared that Ukraine had chosen the Russia's model in terms of the state governance system.

He noted that the Party of Regions had a stable majority in the Parliament of Ukraine and according to the results of the local elections has got practically 80% of seats in local councils, thus having build the Party's of Regions vertical of power. «In fact we are in the process of building the strong structure based on the Russian model: starting with the VRU, the President and the local authorities», - N.Romaniuk said.

The Ministry of Foreign Affairs of Ukraine calls the «South Stream» a political project

Ambassador of Ukraine in the European Union (EU) Konstantin Yeliseyev says that Ukraine sees the South Stream Project exclusively as a political one that was designed to be seed a tool to put pressure on Ukraine.

He noted that Ukraine has offered the European commission a number of ideas regarding the modernization of the Ukrainian gas pipeline network (GPN) in order to increase gas supplies to Europe. «We proposed a project that is 10 times cheaper than the South Stream Project», - says K.Yeliseyev. Along with that he pointed out that according to the Ukrainian experts the South Stream is neither economically nor technologically feasible. The ambassador also said that Russia knew about Ukraine's position with regard to the South Stream. Meanwhile the Chairman of the Duma's Committee on Energy **Yuriy Lapatov** says that Ukraine pushed Russia to finalize the decision to build the South Stream as well as the Nord Stream.

In the meantime, Ukraine is continuing negotiations with Russia regarding the development of the cooperation and strategic partnership in the energy sector between the two countries. In particular, on November 17th, 2010 in Moscow, the Minister of Fuel and Energy of Ukraine **Yuriy Boyko** and the Head of the Board of Directors of «Naftogaz Ukrainy» **Yevgeniy Bakulin** discussed with the Chairman of the Board of Directors of «Gazprom» **Alexey Miller** the issue of choosing the auditor to evaluate Ukrainian and Russian assets to create a joint venture on the basis of parity. According to A.Miller, creation of the Joint Company between «Naftogaz» and «Gazprom» is a much more feasible and realistic option than the idea of creating an international consortium to modernize Ukrainian GPN.

Ukraine is defending territorial integrity of the Republic of Moldova

On November 16th, 2010 another round of «5+2» informal consultations aimed at finding resolution to the conflict between Moldova and Pridnestrovie took place in Kiev.

During the meeting the Minister of Foreign Affairs of Ukraine **Konstantin**

Hryshenko announced that Ukraine as a guarantor and a medium in the Pridnestrovie peace efforts would do its best to find a peaceful solution. He also added that Ukraine promoted the sovereignty and territorial integrity of the Republic of Moldova and granting Prindestrovie a special legal status.

Earlier the Director of Pridnestrovie Scientific and Research Institute for Strategic Analysis and Forecast **Ilya Galinskiy** suggested Russia and Ukraine develop a joint plan to establish a condominium over PMR. «This plan would meet the interests of Preidnestrovian people, Ukraine and Russia», - I.Galinskiy said.

**Large British bank is
leaving Ukraine**

The representative office of a large British bank HSBC has ceased its activities in Ukraine. Acting Head of the Representative office Liudmila Chapistrak attributed this step to the HSBC's revision of their development strategies on the Eastern European market.

As a reminder, earlier a polish Bank Pekao, which is a member of the financial UniCredit Group («Ukrsotsbank» и «UniCredit Bank») decided to leave the Ukrainian market as well.

**«Every tenth Ukrainian doesn't know the new Tax Code is being drafted» -
phone survey**

On November 6th-8th, 2010, Gorshenin Institute has conducted the phone survey «Tax laws in Ukraine». A total of 1000 respondents age 18 or older representing all 25 regional centers, Kiev and Sebastopol, were selected at random following a systematic procedure aimed at filling sex, age and community quotas. The margin of error is no higher than +/-3.2%

According to the results of this National Survey Gorshenin Institute experts came to the following conclusions:

Majority of the respondents (66.2%) think that the tax laws in Ukraine should be replaced. Among them 42.8% answered «definitely yes», 23.4% - «most likely yes». 16.5% of the Ukrainians are of the opposite opinion. Among them 9.8% answered «most likely no», 6.7% are sure that the laws should not be changed at all. 17.3% of the interviewed could not answer the question.

Majority of the Ukrainians (75.8%) have heard that The Cabinet of Ministers and the Verkhonna Rada of Ukraine are drafting a new Tax Code. Every tenth Ukrainian has not heard about it. (10.3%), 13.9% of the respondents could not answer the question.

Almost one third of the Ukrainian citizens (31.4%) treat those who avoid paying taxes with tolerance and understanding. More than a quarter of respondents (26.5%) said that they judged those people and almost the same amount of people (25.3%) don't have any feelings about them. 16.8% of Ukrainians couldn't answer the question.

Majority of the respondents (63.7%) think that if the state doesn't fulfill its obligations before its citizens, avoiding paying taxes can and should be justified. 17,8% of the respondents claim to be of the opposite opinion, 18.5% of the interviewed could not answer the question.

Majority of the Ukrainians (65.6%) think that many don't pay taxes because the taxes are too high and the entrepreneurs would not be able to survive and stay afloat paying all taxes. More than a half of the respondents (52.3%) expressed the opinion that the taxes are not being paid because these money are not used appropriately – not to satisfy tax payers' need. More than a quarter of the interviewed (27.2%) think that people are simply not accustomed to paying taxes voluntarily. 3.6% of the Ukrainians mentioned other factors as reasons of tax avoidance and 4.1% could not answer the question.

More than a half of Ukrainians think that in order to get Ukrainians to pay their taxes the state should lower them (55.4%), 53.2% of the respondents think that the tax laws need to be changed. More than a third of the respondents (35.4%) think that the first thing to do to fix the problem is to eliminate corruption amongst tax authorities. More than a quarter think that the reinforcement of public control over government spending will change the situation (26.2%). 18.3% call for imposing harsher sanctions for tax avoidance, 13.4% suggest to increase the level of public conscience, 6.7% of the interviewed call for giving tax authorities more powers. 4.2% of the respondents chose “other” answering this question, 6.2% could not answer the question

In your opinion should tax law in Ukraine be changed?

Definitely yes – 42.8%
Most likely yes – 23.4%
Most likely no – 9.8%
Definitely no – 6.7%
Don't have an answer – 17.3%

Have you heard that the CMU and the VRU are drafting a new Tax Code?

Yes – 75.8% No – 10.3%
Don't have an answer – 13.9%

What is your attitudes towards the people that avoid paying taxes?

I understand them – 31.4%
I judge them – 26.5%
I don't care – 25.3%
Don't have an answer – 16.8%

In your opinion if the state is not fulfilling its obligations before its citizens can tax avoidance be justified?

Yes – 63.7% No – 17.8%
Don't have an answer – 18.5%

Why in your opinion many people in Ukraine don't pay taxes? (multiple choices are permissible)

Taxes are too high, the entrepreneurs won't be able to stay afloat paying all the taxes – 65.6%
Taxes are not being paid because these money are not used appropriately, not to serve tax payers' interests – 52.3%
People are not accustomed to pay taxes voluntarily – 27.2%
Other – 3.6%
Don't have an answer – 4.1%

What should be done in Ukraine to encourage its people to pay taxes? (multiple choices are permissible)

Lower taxes – 55.4%
Refine the laws – 53.2%
Eliminate corruption amongst the tax authorities – 35.4%
Reinforce public control over government spending – 26.2%
Impose harsher sanction for tax evasion – 18.3%
Increase the level of public conscience – 13.4%
Give tax authorities additional powers – 6.7%
Other – 4.2%
Don't have an answer – 6.2%

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