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Parliament adopts law on election of MPs

On 17 November 2011, the Supreme Council of Ukraine adopted a new draft law on electing MPs.

As many as 366 lawmakers voted in favour of the bill, with 226 votes being the required minimum for its adoption. Both representatives of the majority and the opposition participated in the vote.

The Ukrainian news and analysis website Lb.ua reported that according to the adopted law, 225 MPs will be elected by party lists with the electoral threshold of 5 per cent. No party blocs are allowed to participate in elections. The other 225 lawmakers will be elected under the first-past-the-post system. These candidates can either nominate themselves or their parties can nominate them. At the same time, the same candidate can be included on a party list or can run for a district seat under the first-past-the-post system.

Switching to the mixed electoral system, adopting the electoral threshold of 5 per cent and banning the participation of electoral coalitions were proposed by the working group appointed by Ukrainian President **Viktor Yanukovych**. The opposition was initially against these proposals. However, it agreed them after the parliamentary majority had considered the rest of the suggestions voiced by the Yuliya Tymoshenko Bloc (YTB) and Our Ukraine-People's Self-Defence.

The majority of lawmakers had a positive reaction to the adoption of the new electoral law.

The speaker of the Supreme Council of Ukraine, **Volodymyr Lytvyn**, said: "We demonstrated today that we are all capable of reaching a compromise."

The head of the ruling Party of Regions parliamentary faction, **Oleksandr Yefremov**: "I believe that we all have won. We received a tool which allows us to hold fair and transparent elections in our state."

The first deputy head of the opposition Fatherland party, **Oleksandr Turchynov**: "We have done everything possible in the conditions in which the parliamentary minority finds itself at present. We are not thrilled with the new law but this law diminishes the risk of vote-rigging."

The leader of the Front for Change party, MP of the Our Ukraine-People's Self-Defence party, **Arseniy Yatsenyuk**: "This is a victory for the opposition. The demands of the opposition were clearly laid out and we managed to ensure that these demands were satisfied."

At the same time, several MPs criticized the adopted law.

The leader of the Civil Position party, MP of the Our Ukraine-People's Self-Defence party, **Anatoliy Hrytsenko**: "By voting for the law on electing MPs, the opposition helped the current government to implement the plan to prevent fresh political forces and personalities from coming to the Supreme Council of Ukraine. It is obvious that the interests of the Party of Regions, Fatherland and the Front for Change coincided."

The press service of the Our Ukraine party: "The YTB and the Front for Change have betrayed their public duties to citizens to implement a parliamentary electoral system with open electoral lists. For unknown reasons, they made it easier for the government to pass this undemocratic draft law. Adopting the law on electing MPs

under the mixed electoral system minimizes the chances of holding fair elections in the country and represents the implementation of a scenario for preserving the current regime of the Party of Regions.”

Experts had a more reserved reaction to the adopted law.

The deputy head of the Central Electoral Commission, **Andriy Mahera**: “Overall, one might find certain faults with the law. However, let's not forget that this is a certain compromise and a product of a compromise of many parliamentary forces.”

Commenting on the increase in the electoral threshold from 3 per cent to 5 per cent, he said: “If electoral blocs are cancelled and if there is no legislation which would allow political parties to unite, this norm is somewhat discriminatory.”

In her turn, presidential advisor **Maryna Stavniychuk** said in an interview which she gave prior to the adoption of the law that the Constitutional Court of Ukraine had ruled in 1998 that a provision allowing the same candidate to be included on a party list and run for a district seat under the first-past-the-post system was unconstitutional.

President gets right to use army without Parliament's approval

On November 15, 2011, the parliament amended the law “On the Armed Forces of Ukraine.”

The adopted amendments expand the list of situations, under which the army can be used in peacetime. In particular, units of the armed forces, among other cases, can be employed in fighting terrorism.

In addition, the new law stipulates that a respective decree from the president is enough to use military units, and no approval from Parliament is required any longer (this change was introduced at the suggestion of the presidential administration).

The manpower strength of the Ukrainian army totals 192 thousand people.

It is worth mentioning that the head of the parliamentary committee on national security and defense, MP **Hrytsenko** of the Our Ukraine – People's Self-Defence claims that at present there are no combat ready units in the Ukrainian armed forces.

It should be noted that according to a survey conducted by the Gorshenin Institute in September 2011, the majority of Ukrainian citizens (68.3%) believe that in the event of a real military threat from other states, the Ukrainian army will not be able to defend Ukraine.

Europe ready to initial association agreement with Ukraine by end of 2011

The European Parliament's Committee on Foreign Affairs has issued a recommendation to initial an association agreement with Ukraine, if possible, by the end of 2011.

This is stated in the draft of recommendations to the EU Council, the EU Commission and the European External Action Service which the committee adopted on 17 November 2011.

While noting Ukraine's right to European prospects, the draft also emphasized the country's need to adhere to democratic standards and, in particular, to respect the supremacy of law and human rights.

The Ukrainian Foreign Ministry believes that the recommendations issued by the committee confirm that an association agreement might be initialed by the end of 2011.

We shall remind you that a Ukraine-EU summit will be held in Brussels on 19 December 2011. During the event, the parties are expected to declare that the negotiations on an association agreement have been completed and the document itself might also be initialed.

At the same time, Ukrainian politicians do not rule out that an association agreement might be signed later given the refusal of the EU to incorporate into the document a provision laying out Ukraine's prospects for the EU membership.

According to Ukraine's ambassador to the EU, **Kostyantyn Yelyseyev**, "the destiny of these prospects" depends at the moment on the decision of two European capitals. A Ukrainian member of the committee for the Ukrainian-EU parliamentary cooperation, **Herashchenko**, assumes that the matter has to do with the positions held by France and Germany.

It is noteworthy that one of the key issues in the Ukrainian-EU dialogue is the criminal persecution and conviction of the leader of the opposition Fatherland party, former Prime Minister **Yuliya Tymoshenko**.

On 15 November 2011, Ukrainian President **Viktor Yanukovich** paid a working visit to Poland where met with his Polish counterpart **Bronislaw Komorowski** and German President **Christian Wulff**.

The Polish mass media reported that the Ukrainian president had disappointed the European politicians since he had issued no clear statements regarding either Tymoshenko's case or regarding the overall development of Ukraine.

**Parliamentary
Assembly of Council of
Europe: Ukraine
starting to imitate
Russia's style of
behavior**

The Parliamentary Assembly of the Council of Europe (PACE) has discussed sanctions against Ukraine.

The mass media quoted a member of the PACE secretariat as saying that on 17 November 2011, the PACE Monitoring Committee had met in Paris to discuss possible sanctions against the Ukrainian government.

The PACE is concerned that Ukraine does not meet the undertaken obligations and that its government refused to allow the organization's rapporteurs to meet with former Prime Minister **Tymoshenko** and former Interior Minister **Yuriy Lutsenko** in the detention centre. Additionally, the PACE was surprised that Ukrainian President was unwilling to meet with its rapporteurs during their recent visit to Ukraine in October 2011.

"The Ukrainian leaders are imitating Russia's style. They do not like to meet with rapporteurs over there either. However, the consequences for Kiev will be the following: it will be associated with Moscow to a greater extent," a representative of the French delegation to the PACE told the mass media.

**Proceedings launched
against Supreme Court
judges for oath
violation**

Deputy Prosecutor General Mykhailo Gavrylyuk is accused of the attempt to pressure judges of the Supreme Court of Ukraine (SCU).

As reported earlier, on November 7, 2011, Gavrylyuk said that the High Council of Justice opened proceedings against members of the SCU's Chamber for Criminal Cases for violation of judicial oath. According to him, the judges are accused of

illegally changing in 2009-2010 life sentences of 15 persons to 15-year terms. At the same time, the deputy prosecutor general noted that all judges of the SCU's chamber are partially involved in making these decisions.

The SCU denies the accusations, claiming that the decisions on changing the sentences were made in accordance with the law.

According to some experts and politicians, such statements by the prosecutor's office indicate that attempts are being made to discredit and apply pressure on judges ahead of the election of the SCU's chairman.

Draft law on decriminalizing economic offences adopted by Parliament does not affect article used to convict Ukraine's ex-premier

On 15 November 2011, the Ukrainian Parliament adopted the presidential law on decriminalizing economic offences.

The adopted law cancels criminal punishment for certain offences on economic activity replacing it with administrative responsibility and fines, in particular:

Overall, following the president's proposal, parliament decriminalized 16 articles of the Ukrainian Criminal Code, including the articles which deal with smuggling, carrying out forbidden types of business, illegal opening or using foreign currency accounts abroad, illegal actions with privatization documents, violations of mandatory requirements for privatizing state and communal property or companies and their subsequent use, and so on.

At the same time, the parliamentary majority refused to incorporate into the law an amendment proposed by the opposition which wanted to decriminalize Article 365. It hich deals with abuse of office and which was used to convict former Prime Minister **Tymoshenko**.

In response, the opposition stated that it intended to decriminalize Article 365 by submitting a new draft law for the consideration of Parliament.

At the same time, the representative of the Ukrainian president in Parliament, MP of the ruling Party of Regions, **Yuriy Miroschnychnenko**, believes that there is a slight probability that the Supreme Council of Ukraine will debate such a draft law by the end of 2011.

Yuliya Tymoshenko's lawyers challenge case over Yedyni Enerhetychni Systemy Ukrayiny

On 14 November 2011, Tymoshenko's lawyers challenged the opening of criminal case regarding the operation of the Yedyni Enerhetychni Systemy Ukrayiny (YESU) company.

"The appeal argued that, in fact, those materials which we have seen and which we have studied contain no information about any crimes committed by Tymoshenko. The documents which the investigation uses to back up Tymoshenko's alleged role in these cases have nothing to do with her," the former prime minister's lawyer, **Serhiy Vlasenko**, said.

As the Ukrainian news and analysis website Lb.ua reported earlier, the tax police started to investigate four criminal cases that deal with the activity of the YESU corporation in 1995-97 when it was headed by Tymoshenko. Eventually, the four cases were combined into one and the former prime minister was accused of concealing foreign currency earnings worth over 165m dollars, embezzling budget funds and tax evasion worth over 5.9m dollars.

Responding to the statement by Tymoshenko's defence that the statute of limitation

dates for launching these criminal cases have expired, the head of the press service of the Prosecutor-General's Office of Ukraine (PGO), **Yuriy Boychenko**, said that the cases could not be closed because of expired dates. "Legislation envisions that committing a new crime stops the count of days towards the expiry. Since the chain of Yuliya Tymoshenko's crimes was not broken, as soon as one date reached expiry, the other date began. Hence, expiry dates for launching the cases were not violated," he explained.

Additionally, the PGO opened a number of fresh criminal cases against Tymoshenko. In particular, the leader of the Fatherland party is accused of attempting to seize the Lukyanivske detention center in 2003 and to bribe members of the Supreme Court of Ukraine. Furthermore, the PGO is investigating whether Tymoshenko might be involved in the murder of MP **Yevhen Scherban** in 1996.

Ukrainian president says gas negotiations with Russia nearly completed, revealing new gas price premature

Ukrainian President Yanukovich believes that it is premature to talk about the new price of Russian gas.

"We have come very near to resolving this issue. However, this process has not been ultimately concluded," he said on 17 November 2011.

Previously, the Ukrainian mass media circulated the information that the parties had reached an agreement on the new gas price which might be 220-230 dollars per 1,000 cu.m.

At the same time, the Russian government noted that it is premature to talk about the gas price for Ukraine before the corresponding documents are signed.

At the same time, Ukrainian Prime Minister **Mykola Azarov** forecast that Ukraine will save up to 6bn dollars per year after new gas contracts are signed.

It is noteworthy that Ukrainian politicians and experts agree that Russia might agree to a substantial reduction in the gas price only if Ukraine makes serious concessions such as transferring control over its gas transportation system or the sale of strategic companies.

Raising gas tariffs for Ukrainian households not key issue for International Monetary Fund

The International Monetary Fund (IMF) believes that raising gas tariffs for Ukrainian households is not a key issue in the negotiations with Ukraine.

The permanent IMF representative in Ukraine, **Max Allier**, said that a realistic budget for 2012 was important for the IMF. "Unfortunately, it was not the progress which we would like to see. However, we look forward to opportunities for further cooperation," he noted.

Earlier, Ukrainian parliamentary speaker **Lytvyn** said that MPs would debate the draft law on the 2012 state budget after the conclusion of Ukrainian-Russian gas talks.

Ukraine, China to make bilateral payments in national currencies

On November 6-9, 2011, the Ukrainian delegation paid a visit to the People's Republic of China.

Following the visit, the press service of the National Bank of Ukraine (NBU) reported that the sides reached agreement that the NBU and the People's Bank of China will strike a currency swap deal by the end of 2011. "The signing of this agreement will allow economic entities of both countries to use their national currencies in export and import transactions and make mutual payments in their national currencies without using currencies of third countries," the press service said.

According to the Director of the Institute of Society Transformation, **Oleh Soskin**, Ukraine and China have agreed to make payments the national currencies in 30 per cent of bilateral transactions. Therefore, Soskin projects that Ukraine's will convert up to 8 percent of its gold and foreign reserves into the yuan.

As NBU Governor **Serhiy Arbuzov** earlier said, Ukraine and Russia have agreed that the former will be paying for the natural gas supplied by Gazprom in Russian rubles. Natural gas accounts for the largest share in Russia and Ukraine's bilateral trade turnover.

Opposition calls on prosecutor's office to look into significant drop in gold and foreign currency reserves of National Bank of Ukraine

The opposition claims that the NBU's speculations resulted in a significant decrease in country's gold and foreign currency reserves.

In particular, First Deputy Head of the Parliamentary Committee on Finance and Banking Activity, MP **Serhiy Teriokhin** of BYuT believes that one of the reasons behind the drop in the reserves is the measures taken by the NBU. According to him, the NBU secretly started to change the structure of the foreign currency portfolio of Ukraine's national reserves in an attempt to hedge it against currency risks.

"As a result of such speculation, over the recent months Ukraine has nominally lost about one and a half billion U.S. dollars in its reserves. Shouldn't prosecutors look into this case?" he said.

According to Teriokhin, currently there are cash equivalents worth 12 billion dollars and bank metals worth up to 1.9 billion dollars in the NBU treasury, while the remainder of the NBU's assets are kept in securities whose structure may not be disclosed. At the same time, the lawmaker admits that some part of the reserves may be kept in illiquid stocks of bankrupt companies such as Lehman Brothers or Fannie Mae.

In September 2011, NBU foreign reserves fell by 3.26bn dollars (-8.5%) and reached 34.95bn dollars as of September 30. In October, the reserves reduced by 788.19m dollars (-2.3%) and totaled 34.16bn dollars as of October 31.

Inflation in Ukraine in 2011 to range from 7.5% to 10% - opinions

Experts express different opinions as to inflation in Ukraine.

In particular, during the NBU board meeting on November 15, 2011, NBU Governor **Arbuzov** said that inflation in Ukraine will reach 7.5% by the end of the year, while the official CPI level forecast for the year is 8.9%.

According to him, it is an important sign for the country, as inflation is slowing down while GDP is growing.

Yet, Resident Representative of the International Monetary Fund (IMF) in Ukraine **Alier** makes a somewhat gloomier forecast. According to his estimates, inflation in Ukraine in 2011 will reach about 10.0%.

"As for the year of 2012, I see here worsening forecasts of the economic situation. We believe that the rate of the economic growth in 2012 will come to three point five or four per cent, the inflation rate under ten per cent, and the payment balance deficit will somewhat increase to five point five per cent of GDP," he noted.

Government goes easy on Cyprus offshore

Parliament will soon review a bill introducing additional taxation on transactions with offshore zones.

According to Vice Prime Minister and Minister for Social Policy **Serhiy Tihipko**, the bill introduces rigid mechanisms and can bring an additional 250m dollars to the national budget.

At the same time, Tihipko said that the list of offshore zones will not include some cantons of Switzerland, Luxembourg and Cyprus.

“Cyprus is an EU country, and unfortunately we can't go be so hard on them,” he explained.

As previously reported, Tihipko has repeatedly called for closing the “Cyprus offshore hole.”

According to the news and analyses portal LB.UA, at the joint press conference with his Ukrainian counterpart **Yanukovych** in Kyiv on July 4, 2011, the President of Cyprus, **Demetris Christofias**, said Cyprus was ready to sign a new agreement on avoidance of double taxation with Ukraine. At the same time, Yanukovych noticed that the question on the new agreement will be closed no later than September-October 2011.

It should be noted that Ukraine and Cyprus are still using the agreement signed during the Soviet period, which is being criticized for making “tax loopholes.”

**Land market law sent
back for revision**

On November 17, 2011, Parliament decided to finalize a government bill on the land market.

Sent for review after the first reading, this bill establishes the legal and economic framework for organization and functioning of the land market and the procedure for sale and lease of land plots through auctions.

The adoption of this law is one of the conditions for lifting the moratorium on sale of agricultural land.

The representative of the president in parliament, MP **Yuriy Miroshnychenko** of the Party of Regions believes that the law on land market can be adopted before the end of the ninth parliamentary session, which is scheduled to close on January 13, 2012.

In his turn, chairman of the parliamentary faction of the Party of Regions **Oleksnadr Yefremov** expressed doubts that the Verkhovna Rada of Ukraine will manage to pass the law on the land market before 2012.

According to him, if the law is not passed before 2012, the moratorium on the sale of agricultural land, which remains in effect until 2012, will be automatically extended. Oleksnadr Yefremov also mentioned that the bill provides for the introduction of the land market starting from 2013.

It should be noted that on the same day, November 17, 2011, representatives of farming organizations staged a protest near the parliamentary building. The protesters demanded that lawmakers abandon the plans to introduce the land market.

**Officers of security
agencies may join
Chernobyl disaster
liquidators, veterans
and businessmen in
mass protests**

Ukrainians staging mass protest rallies across country.

Mass protest rallies have swept through major Ukrainian cities (Kyiv, Kharkiv, Donetsk, Dnipropetrovsk, Lviv, Khmelnytsky and others). Among the protestors are participants in the emergency clean-up after the Chernobyl nuclear accident and veterans of the Afghan war, who demand repayment of the debts on social payments and pensions. Also, the protesters demand resignation of the government, Parliament and president.

Apart from Chernobyl disaster veterans, entrepreneurs are also holding mass rallies in some Ukrainian cities, protesting against repressive measures introduced in tax legislation. Among other demands, they are also calling on the government to step down.

Officers of security agencies may also join the protesters in the near future. According to the National Forum of Trade Unions of Ukraine, officers and veterans of the uniformed services are planning to hold protest rallies on the Day of Ukrainian Armed Forces, which is marked on December 6, 2011.

It should be noted that according to a survey conducted by the Gorshenin Institute in March 2011, almost half of the Ukrainian population (45.3%) are ready to join the protestors in mass rallies.

The second wave of the global crisis will not be crushing – experts

Former Ukrainian Deputy Finance Minister Ihor Umanskyy believes that the Ukrainian economy has already begun to enter the second wave of the global crisis. According to him, the contracted production in such strategic economic sector as the mining and metallurgical complex demonstrates that the second wave of the crisis has already covered Ukraine. “A crisis has already begun in Ukraine. It started in the financial system back in September. After a number of European machine-construction companies took a decision to suspend the operation of conveyer belts until further notice, industrial production in Ukraine has started to fall,” the expert noted. He added: “If you take a look at one of our key economic indicators – the price of metal – then you will see that the metal price started to drop in the entire world. The markets for Ukrainian metal are constantly contracting.”

In Umanskyy's opinion, no one doubts the fact that like the global economy, Ukraine's economy will also be affected by the crisis phenomena in the mid-term future. “The other issue is how deep this crisis will be. I do not believe that there are grounds to state at present that the crisis will be as deep as it was in 2008-09. However, if you take a look at the reaction of the Ukrainian authorities, then there is an impression of *déjà-vu*. Like in 2008, the Ukrainian government continues to say that everything is great here, while the trade deficit continues to rise,” the expert said.

Umanskyy is convinced that the current Ukrainian government will not have sufficient resources to maintain relative economic stability until the 2012 election. “With the current trends, the resources of the National Bank [of Ukraine] will suffice to maintain the current hryvnya exchange rate until the end of this year at the very latest. A gradual and controlled devaluation of the hryvnya should have been launched back in June of this year. In this case, we would not have the shocking consequences which we experienced at the end of 2008 and which Belarus has lived through recently. Unfortunately, the current government is again leading us to them,” Umanskyy concluded.

The executive director of the International Blazer Foundation, Oleh Ustenko, believes that the exchange rate of the hryvnya is an indicator of stability. “By looking at the currency rate, one looks at the overall stability. If the hryvnya becomes weaker, it means for many people that it is rather hard to control the situation,” he said during the round table. Additionally, Ustenko opined that the Ukrainian economy will manage to prepare for the crisis provided that political will is in supply.

Speaking about the situation in the EU, the expert noted that “Greece is only the beginning”, while the measures to rescue the Spanish and Italian economies might be too much of a challenge for Brussels. “The risk of the USA plunging into recession has not disappeared,” he added.

When asked by journalists, Ustenko said that according to the estimates of the International Blazer Foundation, Ukraine's GDP will not grow as much in 2012 as the government forecast and will be around 3.5 percent. The foundation

further estimated the level of inflation at 7-9 per cent, the current account deficit at 4 per cent and the volume of foreign investment at 5bn dollars.

In his turn, **the head of the analytical department of the Alfa-Bank public joint-stock company, Oleksiy Blinov**, noted that that the current account deficit will reach 5 per cent in 2011 although, he noted, it was not a critical level. “The current account deficit will be 5 per cent in 2011. This is not a critical number. We entered the 2008 crisis with a deficit of 12 per cent of GDP. This is a benchmark,” he said.

The expert added that the current account deficit was far from critical and that it mostly depended on the difference between exports and imports. “Over the past two years, the deficit has been growing following the 2008 post-crisis contraction. I do not believe that it can be attributed to such factors as the increase in the gas price. Ukraine is following the old scenario by accumulating a trade disbalance,” Blinov stressed.

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