



# Gorshenin *Weekly*

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**Tymoshenko case  
hearings suspended  
till 27 September 2011**

**The court in the case of the former prime minister and leader of the Fatherland Party, Yuliya Tymoshenko, has announced a break in hearings till 27 September 2011.**

By doing so, judge **Rodion Kireyev** satisfied Tymoshenko's request to give her time to get prepared for debates in court.

A reminder that earlier it was expected that the debates would be held on 12 September 2011.

Members of the Ukrainian parliament who are allies of Yuliya Tymoshenko, say that the delay in the court hearings may be linked to an attempt to create comfortable conditions for the Ukrainian government ahead of the Eastern Europe summit to take place on 29-30 September 2011. Members of parliament believe that the verdict in the Tymoshenko case may be announced as early as 3 October 2011, as "the situation should be kept unclear as of 30 September, the day of the summit".

Ukrainian Prime Minister **Mykola Azarov** said that Tymoshenko was standing trial not for signing the Ukrainian-Russian gas contracts but rather for forging government directives to conduct negotiations with Russia in 2009.

Commenting on the gas contracts signed in 2009, Ukrainian President **Viktor Yanukovych** suggested that Tymoshenko was forced to approve signing of the deal. "We are an independent state. We pay this 100% unfair price (of gas – editor's note). And one should not be happy over the fact that in 2009 they (Russia - editor's note) managed to find a way to make Tymoshenko sign the contract".

It is well known that she is accused of exceeding her powers when she signed the gas contracts with Russia in 2009. In 2009, the former prime minister singlehandedly and without consulting with members of the government approved directives for a Ukrainian delegation to sign the gas contracts with Russia.

It is worth mentioning that Tymoshenko testified in court on 7 September. She said that the indictment brought against her contained no evidence that she had committed a crime. In order to establish that she is guilty of exceeding her authority when she issued the directives for the Ukrainian state-run oil and gas trader Naftohaz Ukrayiny, the prosecution needs to supply the court with evidence that such directives are the exclusive prerogative of the Cabinet of Ministers of Ukraine as a collegial body, Tymoshenko noted. At the same time, the former prime minister stressed that under the law "On the Cabinet of Ministers of Ukraine," issuing such directives does not constitute the exclusive prerogative of the Cabinet.

The former prime minister also pointed out that the gas case materials missed the original copy of the directives for holding the gas negotiations. "When the key document around which all the negotiations are held and upon which the entire criminal case is now formed is not the original, what was the Ukrainian Prosecutor-General's Office [PGO] doing? Why did it not obtain the original and add it to the case?" Tymoshenko wondered. "I would like the court to provide an independent assessment of this document," she said. At the same time, the former prime minister added: "I cannot rule out that the directive that is contained in the [case] materials has not been forged by the current regime."

Tymoshenko also stated that it took the PGO's senior investigator for especially important cases, **Oleksandr Nechvohlod**, several hours to read the 14 volumes of

her case materials and to compose an indictment. According to her, the deputy prosecutor-general who is directly interacting with the presidential administration approved the document the same day. "Currently, the judge considers the case every day without breaks, which strips me of the right to defense," Tymoshenko added.

In his turn, the prosecutor who presents the state charges in the criminal case against Tymoshenko said that her testimony in court was political statements. "The statements of the accused have nothing to do with her questioning. These are purely political statements," he said, interrupting Tymoshenko's speech.

At the same time, an MP of the opposition Yuliya Tymoshenko Bloc (YTB), **Serhiy Vlasenko**, who has been forbidden by the court to defend the former prime minister, said that the directives added to the case materials did not have Tymoshenko's signature but rather a facsimile. Despite an analysis conducted by the prosecution, only employees of the Secretariat of the Cabinet of Ministers of Ukraine could have put a stamp on the document. Additionally, the text of the directives was passed to the former head of Naftohaz Ukrayiny, **Oleh Dubyna**, by the former minister of fuel and energy, **Yuriy Prodan**. This fact was confirmed by both Dubyna and Prodan, as well as by Tymoshenko.

"This means that 24 volumes of the criminal case materials simply legally ceased to exist," Vlasenko stressed.

Answering why the defense did not state that Tymoshenko had not personally drawn up the directives and had not signed them, Vlasenko said that it was the tactics and the strategy of defense.

It is worth mentioning one more fact about the handling of the case launched against Tymoshenko. The Ukrainian news and analysis website Lb.ua reported that on 2 September 2011, an expert of the Kiev Institute of Trial Analysis, **Halyna Ilchuk**, appeared in court. We would like to stress that it was the experts of this particular institute who said that Tymoshenko had inflicted multibillion losses on Ukraine. During her testimony, Ilchuk admitted that the assessment of losses and the analysis had not been carried out on the basis of primary sources such as Naftohaz Ukrayiny's accounting documents but on the basis of a report which the Ukrainian Energy Ministry had issued in 2011. She officially acknowledged at the trial that it was not totally appropriate not to use the primary documents for carrying out analysis.

We shall remind you that the analysis of the Kiev Institute of Trial Analysis, which was conducted on the basis of the report issued by the Ukrainian Energy Ministry, has normatively and officially confirmed the loss of 194.6 m dollars, which the Naftohaz Ukrayiny company suffered as a result of the gas contracts signed with Gazprom in January 2009. Hence, based on this conclusion, Tymoshenko is accused of inflicting a substantial loss on the state.

It is worth noting that the state prosecution involved in the criminal case against Tymoshenko has not yet determined what kind of punishment it will ask the court to hand down to the former prime minister.

At the same time, Vlasenko forecast that the court will sentence Tymoshenko to seven-ten years behind bars. In her turn, Tymoshenko said that judge Kireyev was tasked with handing down a verdict on 15-16 September 2011.

We would like to mention that on 8 September 2011, the court turned down a request submitted by Tymoshenko's lawyers for a one-on-one confrontation between the third Ukrainian president, **Viktor Yushchenko**, and the former head of Naftohaz Ukrayiny, **Oleh Dubyna**. Tymoshenko's lawyers said that this one-on-one confrontation would eliminate contradictions in the testimony of Yushchenko and Dubyna. In particular, lawyer Yuriy Sukhov noted that these witnesses provided different reasons for Dubyna's leaving the gas negotiations in Russia at the end of 2008.

We shall remind you that Yushchenko denied that he had recalled a Ukrainian delegation from the gas talks held in Russia in 2008. Additionally, he rejected on multiple occasions the claims that he is linked to the Swiss-registered RosUkrEnergo company. At the same time, Dubyna mentioned during his questioning at the trial that he had met with Ukrainian stakeholders in RosUkrEnergo in Yushchenko's office.

The court has also refused to invite for testimony several other individuals who, according to Tymoshenko's lawyers, could prove her innocence. At the same time, the court added Naftohaz Ukrayiny's consolidated financial statement for 2009 prepared in line with international standards and its audit, which were carried out by the Ernst & Young company, to the materials of Tymoshenko's criminal case. Several other documents were also added to the case materials by the court.

It is worth mentioning some media reported that having been sentenced, Tymoshenko may be pardoned. In the event of an amnesty, the government would kill birds with one stone: it makes concessions to the West and deprives the leader of the opposition Fatherland Party from taking part in any elections, media reports say.

**Ukraine to sign  
association agreement  
with EU by end of 2011  
– Party of Regions**

**Ukraine will sign a European Union association agreement by 1 January 2011, the ruling Party of Regions has said.**

"I conducted meetings with top representatives of the European Parliament and the European Commission. They gave me assurances that an association agreement will be signed by the New Year. I informed the president of Ukraine, the Supreme Council [parliament] and the government about it," the first deputy head of the parliamentary committee for European integration, MP of the Party of Regions **Volodymyr Vecherko**, said after a trip to Brussels.

As previously reported, Ukraine and the European Commission intend to agree all the key provisions of a deep and comprehensive free trade area between Ukraine and the EU prior to a summit of the Eastern Partnership slated for 29 September 2011.

At the same time, French Foreign Minister **Alain Juppe** said earlier that if Ukraine and the EU sign an agreement on political association, its ratification will be contingent upon dropping the ungrounded charges which have been brought against Tymoshenko.

In his turn, Ukrainian Prime Minister **Mykola Azarov** said that Tymoshenko's lawyers were conducting a gaol-oriented campaign in Ukraine and abroad which was intended to discredit the court and the process of the trial itself. "The objective of such a campaign is to derail the trial and to undermine the national and international reputation of the current government," he opined.

**Nothing changed in Ukrainian-Russian gas relations; parties only exchange several statements**

At the same time, the executive director of the international NGO Freedom House, **David J. Kramer**, said that trials of opposition members leave the impression that the Ukrainian government uses the legal system to persecute its opponents.

The EU ambassador to Ukraine, **Jose Manuel Pinto Teixeira**, believes that if the government potentially prevents the opposition from participating in the 2012 parliamentary election, its outcome might be questioned.

## **A confrontation between Ukraine and Russia in the gas sphere persists without any specific results.**

Over the past week, Ukrainian and Russian representatives have made several statements regarding the gas contracts signed by Naftohaz Ukrayiny and Russia's Gazprom in 2009.

### Ukraine's key points:

Although the current contracts are "enslaving," Ukraine will honor them in good faith until it convinces Russia of the need to revise their terms.

Ukraine finds that approximately 230-250 dollars per 1,000 cu.m. represents an acceptable price for Russian gas. At the same time, the Ukrainian government assumes that many European countries purchase Russian gas cheaper than Ukraine does, while tariffs for transiting gas across entire Ukrainian territory are lower than in European states.

If compromise is not reached, Ukraine is ready to file a lawsuit with international courts. All the necessary documents have been already prepared.

The so-called Kharkiv agreements, under which Ukraine received a 100-dollar gas discount, will remain in force after the current gas contract is annulled and a new one is signed.

### Russia's key points:

Ukraine is obliged to adhere strictly to the framework of the current gas contract.

Any attempts at challenging the current Russian-Ukrainian contracts are illegitimate.

The Kharkiv agreements, which the heads of the two states signed in 2010, confirm that the 2009 gas contracts are legitimate.

The gas price for Ukraine is the same as it is for Germany. At the same time, the tariffs imposed by Ukraine for the gas transit through its territory are higher than in the Czech Republic, Slovakia and Poland.

Russia opposes the European Commission's audit of the Russian-Ukrainian gas contracts, which was proposed by the Polish foreign minister.

It is worth noting that both parties ruled out the possibility that the gas conflict will further escalate and that deliveries of Russian gas to Europe through the territory of Ukraine will be suspended.

It is worth mentioning that on 7 September 2011, the Gorshenin Institute organized

a roundtable devoted to the topic "Are Ukraine and Russia on the threshold of a new gas conflict?" The participants of the event came to the conclusion that the Ukrainian-Russian gas relations are mutually dependent. You can find more detailed information about the roundtable on page 13.

**Naftohaz Ukrayiny  
pays off Gazprom for  
gas supplied in August**

**Naftohaz Ukrayiny transfers about 467m dollars to Russia's Gazprom**

By doing this, Naftohaz Ukrayiny has fully paid for Russian gas supplied in August 2011.

A reminder that according to Naftohaz Ukrayiny, the price of Russian gas in the third quarter of 2011 is around 355 dollars per 1,000.cu.m.

**Ukraine to export own  
gas boosting  
extraction in next few  
years**

**Ukraine plans raising gas extraction to 25bn. m.cu. to 2015.**

"We will sign another five contracts within the next two months with international companies for on-shore extraction of gas. This will bring us an extra 1bn.m.cu. of gas in the next year and 2bn.m.cu in 2013 and 2014. This means that as of 1 January 2015 Ukraine will extract 25bn..cu.m. of gas instead of the 20.bn.cu. m. now", - Ukrainian Energy Minister **Yuriy Boyko** said on 7 September 2011.

Boyko also said that in 2012 Ukraine would start exporting gas extracted domestically if Gazprom continues to insist that Naftohaz Ukrayiny should buy excessive volumes of gas, as required by the long-term gas contracts signed in 2009.

"We approved a law which allows export of Ukrainian gas at different directions. If our Russian partners offer us the purchase of more gas than our economy needs, we will take this gas here and sell our gas on the spot market. Taking account of our gas holding facilities and a possibility to supply gas at peak loadings, we believe this option will be very good for our economy", Boyko said.

A reminder that according to conditions of the existing gas contracts Naftohaz Ukrayiny has to pay for at least 33bn.m.cu. of Russian gas annually.

A reminder that on 7 July 2011 President **Yanukovych** signed a law allowing the export of gas extracted in Ukraine.

The director of political programmes at the Gorshenin Institute, an expert in Ukraine-Russia relations, **Yevhen Kurmashov**, said that when starting export of Ukrainian gas "it is important to understand who will be able to sell this gas abroad". "It is remarkable to note that this Cabinet actually takes the reverse course from formal and informal norms and rules that have been regulating the operations of the Ukrainian gas market for years. Namely – and this is a formal legal requirement – domestically extracted gas shall be used to cover the needs of private consumers. This legal provision also implies that more expensive exported gas shall be mainly used to cover the needs of industrial consumers who can pay higher price because of high income. The present Cabinet, however, suggests an absolutely different mechanism where expensive Russian gas will be sold to private consumers, the same expensive gas will be used to cover the needs of industry, while cheap gas extracted in Ukraine will be sold abroad at high prices. It is still an open issue whether the income from these operations comes back to the state budget to compensate for the high cost of Russian gas or whether it will be settled via the bank account of intermediaries. In principle, a balance of business interests of pro-government financial and industrial groups and state interests is always possible under any business mechanisms, but it will only be known in a few months from now, when this complicated configuration starts taking shape whether this balance is observed in this particular case", Kurmashov said.



**Gazprom starts filling Nord Stream gas pipeline with technical gas on 6 September 2006.**

The operation of the pipeline at full capacity – 27.5bn.m.cu. of gas per year - will be started as soon it is filled with gas. Russian Prime Minister **Vladimir Putin** said that it is planned to make the first supplies of gas in October-November 2011.

As you know, the construction of Nord Stream's first line was finished in August 2011. The 1,220-kilometer-long pipeline is constructed over the Baltic Sea bottom linking Russia's Vyborg to the German city of Greifswald. It is expected that the second line will be finished in 2012 raising the pipelines throughput to 50bn cu.m.

It is worth mentioning that according to Putin, commissioning of the Nord Stream pipeline takes from Ukraine its exclusive priority to transit gas to Europe. "Ukraine is our business partner. But as every transit country, it also has a temptation of using its exclusive status of a transit country. Having overcome this exclusive, our market relations will become more civilized", Russian Prime Minister Vladimir Putin said.

Ukrainian Energy Minister **Yuriy Boyko** said in reply to Putin's statement that the commissioning of Nord Stream would affect gas transit through Ukraine only slightly, if anything at all. "Taking account increasing gas consumption in Europe, we think that the volume of transit will drop only slightly, if at all", Boyko said.

A reminder that European Commissioner for Budget and Financial Planning **Janusz Levandovsky** said that the commissioning of the Nord Stream pipeline is in fact not an act of diversification of sources of energy supplies to Europe as it increases the dependence of EU countries on the sole supplier of gas – Russia.

**Ukrainian Energy  
Minister: companies  
formed after  
restructuring of  
Naftohaz Ukrayiny will  
be privatized****Ukrainian Energy Minister Yuriy Boyko said on 7 September 2011 that restructuring of Naftohaz Ukrayiny will be finalized before the end of 2011.**

Boyko also said that the companies formed as a result of restructuring – Ukgazvydovovannya, Ukrtransgaz, Chornomornaftogaz, Ukrtansnafta and some others – will be privatized in 2012.

According to Boyko, privatization will take place using IPO mechanisms or by selling shares in the companies' stakes at the International Stock Exchange.

Boyko also said that this privatization to bring about 10-12bn dollars that will be used to implement energy saving programmes and increase gas extraction in Ukraine.

A reminder that Prime Minister **Azarov** said on 5 September 2011 that he invited Russia to buy shares and take part in the operation of a new gas extraction company that will be formed after restructuring of Naftohaz Ukrayiny.

"We will put this company's shares at stock exchanges. If Russia wishes to take part in the operation of this company – we will welcome this. This company will be given assets for extraction of about 1trn.m.cu. of gas", Azarov said.

Azarov also said that Naftohaz Ukrayiny will be restructured because of Ukraine's joining the Treaty establishing the Energy Community, to adopt Ukrainian legislation to EU requirements in the field of energy.

As you know, President **Yanukovych** asked the Cabinet to develop before 1 October 2011 a programme for restructuring of Naftohaz Ukrayiny.

It is also worth mentioning that the director of political programmes at the Gorshenin Institute, an expert in Ukraine-Russia relations, **Kurmashov**, said that a number of Ukrainian officials and businessman have specific interests in liquidation of Naftohaz Ukrayiny and that liquidation of Naftohaz Ukrayiny is not directly linked to revising the price of Russian gas for Ukraine. "Naftohaz Ukrayiny is a company with solid material assets part of which can be privatized as part of the company's liquidation process. Moreover, liquidation of the state-owned monopolist will pave the way for intermediaries to come back to the gas market", Kurmashov said.

The Gorshenin Institute's expert also said that the hypothetical liquidation of Naftohaz Ukrayiny will not solve the main problem in the Ukrainian-Russian gas relations – will not cut the price of Russian gas for Ukraine.

"An information campaign is now in progress in Ukraine to demonstrate that the main purpose of the liquidation of the state-owned monopolist is to terminate the existing contract with Gazprom and sign another contract at conditions more favourable to Ukraine. It is said that the liquidation of a company (do not mix up with restructuring) implies that there is no legal successor and there will be no-one to hand over obligations under the existing contracts. The truth is, however, that part of the obligations under the existing contracts for supply of Russian gas belongs to the country of Ukraine, not just the legal entity Naftohaz Ukrayiny. Both Russian Prime Minister **Vladimir Putin** and President **Dmitriy Medvedev** made clear their position – there will be no revision of conditions of the contract. This means that a hypothetical new contract with Russia will require from Ukraine the same obligations as the existing contract and there will be no price reduction", Kurmashov said.

## **Pension reform becomes effective in Ukraine on 1 October 2011**

### **The law on pension reform to take effect on 1 October 2011.**

A total of 245 members of Parliament voted on 6 September 2011 to support this amendment to the earlier approved law.

According to a report by the LB.UA news website, apart from assigning the date when the law becomes effective, members of parliament also cancelled a provision of the earlier approved law requiring re-calculation of pensions based on wage rates in 2006-08 for 2009 starting of 1 January 2012.

"The reason for approval of these amendments to the said law is the following: the president did not sign the law, as one of its provisions required raising pensions to 10 million pensioners, 334 hryvnias (about 48 dollars) for every Ukrainian pensioner. This is the very reason why the parliamentary speaker did not sign this law and why the president did not sign it. They oppose re-calculating and raising pensions for 10 million pensioners", - an MP on the Our Ukraine-People's Self-Defence Bloc, and leader of the Front of Changes party, **Arseniy Yatsenyuk**, said.

Yatsenyuk also said that the International Monetary Fund (IMF) suspended talks with Ukraine to provide another trnschr as the IMF also does not support the idea of re-calculating pensions either. "This is the only reason behind today's voting. All other explanations are false", Yatsenyuk said.

A reminder that Parliament approved the law on pension reform, submitted by the cabinet, on 8 July 2011. The law provides for a gradual increase in the retirement age for women from 55 to 60, prolongation of pensionable service by 10 years for men and women, limiting the maximum pension rate to an amount equal to 10 subsistence wages.



## **Ukrainian Prime Minister refused to discuss issue of lifting grain export duties**

### **Ukraine won't cancel grain export duties.**

Ukrainian Prime Minister **Mykola Azarov** refused putting on the cabinet's sitting agenda Agricultural Minister **Mykola Prysyazhnyuk's** proposal to lift grain export duties on 8 September 2011. Azarov explained his position with the fact that cancelling grain export duties will cut state budget by 125 million dollars, and this is not acceptable when the government raises minimum wages.

It is also important to note that the Ukrainian Economic Policy Ministry is not concerned with disruption of grain export plans because of export duties. "The international grain market is large enough to accommodate both Russian and Ukrainian grain. Indeed, prices of grain went down in July but were adjusted in August. However, Russian exporters sell grain at prices lower than the market prices. This is their business. Ukrainian grain will be bought in their full scope. We plan to export about 24 million tonnes of grain this year. But now we offer our grain at prices higher than the Russians, and this is why they do not buy our grain", Ukrainian First Deputy Economic Policy Minister **Vadym Kopylov** said.

Kopylov also said that the grain export duties may be prolonged till the end of the current marketing year, that is till July 2012. Kopylov said that along with the issue of extension of the grain export duties, they also consider raising the issue of imposing same duties on vegetable oil and soy.

Kopylov said that Ukraine has sufficient grain storage capacities. "I do not expect a problem here. We have certified grain elevators to store 31 million tonnes of grain and also non-certified elevators to store another 23 million tonnes of grain (the latter means that the storage technology is slightly worse). This means that we can provide storage capacities for 54 million tonnes of grain", Kopylov said.

A reminder that the European Business Association (EBA) actively supported the initiative to cancel grain export duties. According to EBA, this is a critically urgent measure as the contracting period for grain supplies starts in autumn and any delays with removal of grain export duties may impede Ukraine from achieving high volume of export of this product.

## **Ukraine starts commercial use of US nuclear fuel**

### **Commercial operation of Westinghouse nuclear fuel starts at South Ukraine Unit 2.**

South Ukraine Unit 2 was connected to the national grid after planned major repairs on 4 September 2011. A distinct feature of the associated refuelling campaign was the loading of 42 Westinghouse fuel assemblies into the reactor core. As a result, the number of Russian TVEL fuel assemblies was cut from 163 to 121.

This campaign is another phase in the implementation of the US-Ukraine fuel qualification programme. The programme's aim is to create a competitive environment at the domestic market of supplies of fuel for nuclear power plants.

The South Ukraine Nuclear Power Plant is currently Ukraine's only NPP where Westinghouse fuel is used together with Russian fuel.

**Former first deputy  
head of Naftohaz  
Ukrayiny receives  
suspended sentence**

**On 5 September 2011, a court handed down a sentence to the former first deputy head of Naftohaz Ukrayiny, Ihor Didenko.**

Didenko received a suspended sentence of three years behind bars. Additionally, the court prohibited him from holding for a year management positions that are related to running both state-run or private companies. Although Didenko is still unable to leave Ukraine, the judge ruled that his property should no longer be impounded.

Didenko's lawyer **Ihor Stepanov** believes that the verdict was quite unbiased and acceptable. "Actually, we are satisfied with the fact that everything has started from Article 191 envisioning from seven to 12 years in prison and that the court now declared the verdict of a suspended three-year term," he explained.

A correspondent of the news and analysis website LB.UA reported that guards released Didenko in the court chamber after the judge finished to read the verdict.

It is worth noting that Didenko was among the first individuals to be detained after President **Yanukovych** came to power. The former Naftohaz Ukrayiny's top manager spent over a year behind bars.

Earlier, a court released the former head of the State Customs Service of Ukraine, **Anatoliy Makarenko**, and the former deputy head of an energy regional customs, **Taras Shepytko**. Their cases were initially considered jointly and later on independently.

We shall remind you that earlier, on 30 August 2011, the charges brought against Didenko were modified. Instead, the accusation was somewhat softened together with the punishment, which no longer envisioned the confiscation of property. At the same time, during the trial on 31 August 2011, Didenko expressed regret that he had signed the gas contracts. He added that he would have never signed the contracts if he had known that the directives of the Cabinet of Ministers were singlehandedly issued by Tymoshenko.

It is well known that Didenko faced charges in connection with the legality of clearing through the customs in 2009 11bn cu.m. of gas that belonged to the RosUkrEnergo company.

We shall remind you that on 8 June 2010, the Arbitration Institute of the Stockholm Chamber of Commerce ruled that Naftohas Ukrayiny should return 11bn cu. m. of gas to RosUkrEnergo and should pay this company a fine envisioned by the terms of the contract which was equivalent to 1.1bn cu.m. of gas.

It is well known that Gazprom owns 50 percent of the stake in RosUkrEnergo. Two Ukrainian businessmen, **Dmytro Firtash** and **Ivan Fursyn**, have a 45-percent and 5-percent stake in the company, respectively.

**Firtash uses  
Gazprombank's  
money to purchase  
Ukraine's chemical  
assets**

**Russia's Gazprombank has helped Ukrainian businessman Firtash to purchase assets in the chemical industry.**

The mass media reported that Gazprombank had loaned over 1bn dollars to companies run by Firtash.

At the same time, Firtash's representative stated in a commentary to a paper that the businessman paid for the above-mentioned assets using his own finds, while the bank loans constituted only an insignificant part of the sum.

The mass media quoted a source close to Gazprombank as saying that nearly a year ago Firtash signed a contract on cooperating in the gas sphere with Russian businessman **Arkadiy Rotenberg**. The deal envisioned a joint purchase of Ukrainian and Russian companies. Sources from the Firtash entourage said that Rotenberg will receive up to 50 percent from an asset which he buys together with Firtash in Ukraine. Gazprombank provided funds to Firtash exactly with this end in mind, the sourced clarified.

Previously, it was reported that the net worth of Ukrainian businessman Firtash rose by 540 percent in 2010 – from 354m dollars to 2.25bn dollars. This is recognized as a world-record rate of capitalization. These results were obtained by experts who compile the annual rating of the 100 richest Ukrainians, “The golden hundred.” Several chemical assets such as the Severodonetsk and Cherkasy-based company Azot, as well as the Horlivka-based company Stirol, which Firtash have purchased, serve as one of the reasons for this growth.

It is worth noting that several Ukrainian and Russian mass media reported that Firtash is **Semen Mohylevich's** business partner.

**Ukraine's Finance Ministry to set 2.5-percent deficit in 2012 state budget**

**Ukraine's deficit will be set at 2.5 percent of GDP in the state budget for 2012, Ukrainian Finance Minister Fedir Yaroshenko has said in parliament.**

According to his forecasts, the 2012 state budget will become a budget of economic growth, while his key objective will be to prevent a possible second world financial crisis from affecting the Ukrainian economy.

The minister added that the government will present a draft law to this effect on 15 September 2011.

**Ukraine wants to revise terms of WTO membership**

**In 2011, Ukraine intends to start negotiations to revise the terms of its membership in the World Trade Organization (WTO).**

It is worth noting that the mass media obtained a copy of a letter which Ukrainian Prime Minister **Mykola Azarov** sent to the head of the Ukrainian Union of Industrialists and Entrepreneurs, MP of the Party of Regions **Anatoliy Kinakh** has said. The letter stated that the government planned to launch talks by the end of the year to change Ukraine's tariff responsibilities which it undertook when entering the WTO. At the same time, Azarov noted that the procedure for initiating such revision did not require preliminary talks with other WTO members.

However, it is not yet clear what conditions Ukraine is going to revise.

**Ukrainian President Viktor Yanukovich to pay official visit to Turkmenistan on 12-13 September 2011**

**Ukrainian President Viktor Yanukovich left for an official two-day visit to Turkmenistan on 12 September 2011.**

The presidential press service said Yanukovich was invited to Turkmenistan by Turkmen President **Gurbanguly Berdimuhamedow**.

It is expected that the negotiations will result in the signing of a number of documents.

**Ukraine obstructs  
Russian military ship  
from passing through  
Kerch Strait****A Russian ship has experienced difficulty with Ukraine while crossing the Kerch Strait.**

The mass media quoted a source from the headquarters of the Russian Black Sea Fleet that the Ukrainian Kerch-based centre for the regulation of maritime traffic did not allow the Russian landing ship Azov, which was headed to the Russian port of Azov, to cross the Kerch Strait.

Certain sources reported that Ukrainian maritime officials demanded that the Azov commander hire a maritime pilot, while the Russians refused to do this.

At the same time, other sources said that the documents for the passage of the Azov ship through the Kerch Strait were not filled out appropriately, which triggered this issue.

The mass media also quoted an informed source as saying that after three hours of talks, the Azov ship was granted permission to cross the strait. At the same time, several mass media outlets circulated information that the ship was forced to pass through the shallow Temryukskiy bay located on the territory of Russia.

It is worth noting that several Russian mass media reported that the issue with the passage of the Russian ship through the Kerch Strait was the outcome of the gas conflict between Moscow and Kiev. It may serve as impetus for resuming talks on the conflict about waters near the island of Tuzla.

Russia said later that the matter was now exhausted.

**Infamous company  
Livela acted legally –  
Ukrainian finance  
minister****The actions of the Livela company are legal, Ukrainian Finance Minister Fedir Yaroshenko said in parliament on 9 September 2011.**

He also added that there were no grounds for calculating the loss that had been inflicted on Ukraine by Livela's activity.

At the same time, Yaroshenko denied information that President Yanukovich and the government were linked to Livela.

A reminder that in August 2010, the Livela company managed to receive through courts permission to import petroleum products without paying excise duties, VAT and import duties. The company has been importing petroleum products from July 2010 to January 2011. The State Taxation Service challenged this right. The Antimonopoly Committee of Ukraine (AMCU) estimated that the state budget had lost nearly 377m dollars in 2010 as a result of Livela's activity. The AMCU has also launched an investigation into duty-free imports of oil and petroleum products to Ukraine which has not been completed yet.

The Ukrainian mass media reported that Livela is run by the Ukrainian first deputy prime minister, **Andriy Kluyeyv**.

**UKRAINE-RUSSIA GAS RELATIONS ARE INTERDEPENDENT – EXPERTS**

The Gorshenin Institute has held a round table discussion called "ARE UKRAINE AND RUSSIA ON THE THRESHOLD OF ANOTHER GAS ROW?" where experts discussed the future of Ukrainian-Russian relations in the context of the gas issue.

**The deputy director general of the Russian Energy Agency, LEONID GRIGORYEV**, has said that reorganization of state energy company Naftohaz Ukrayiny would not result in a termination of gas contracts. "The legal successor of Naftohaz Ukrayiny will fulfill the conditions of the gas contracts with Russia in their full scope", Grigoryev said. He also was skeptical about the prospects of resolving the issue in court. "Arbitration does not bring any prospects... Gazprom won cases regarding gas transit through Poland in Polish courts. Gazprom has very strong lawyers", Grigoryev concluded. He also said that Ukraine buys gas at prices lower than Germany does. "High prices are the result of different aspects that were made part of the contract. The starting price for this contract was very high. In fact, the price for Ukraine is some 50-60 dollars less than for Germany. It will always remain the same, as the formula is always the same, just the starting price is different and a discount also matters", Grigoryev said.

**An independent energy expert, OLEKSANDR NARBUT**, said that the purpose of the reorganization of Naftohaz Ukrayiny should be creating new market opportunities rather than termination of the gas contracts. "They shall not dissolve Naftohaz Ukrayiny for the sake of terminating the contracts", Narbut said. He added that the new market opportunities should allow free access to the market not only to Gazprom, but also to other players.

**An MP from the Party of Regions, VOLODYMYR OLIYNYK**, suggested that Ukraine's appeal to the Stockholm Court of Arbitration to revise the gas contracts with Russia may result in preserving the existing price of gas. "Imagine the court cancels the contract. What then? What the price would be? It may well be that the price remains the same», Oliynyk said. He added that the court, however, may cancel the conditions of gas supply Ukraine is currently unsatisfied with.

Oliynyk also said that Ukraine's position is aggravated with the contract requirements banning re-export of excessive volumes of gas together with the "take or pay" principle, when Ukraine has to pay for the volume of gas required by the contract even if the country does not consume this gas. Oliynyk said that the court's examination of the gas contracts with Russia may bring some prospects. "The court has not looked into the contract yet. Contracts provide for equal rights and obligations, not for terms of enslavement," Oliynyk said.

**An MP of the Yuliya Tymoshenko Bloc, SERHIY SOBOLYEV**, said that there is no chance of breaking the gas deal with Russia. Sobolyev said that the only alternative to the existing contracts is signing new contracts on mutually beneficial conditions. "The only perspective in talks with Russia is signing a new contract to the mutual benefit of both countries, as was done in 2009 (*the contract signed when Tymoshenko led the Cabinet – editor's note*), when not a single square foot of our land was surrendered", Sobolyev said.

**First Secretary of the German Embassy in Ukraine TANYA BAYER** said that the gas contracts can not be terminated because of Tymoshenko's verdict. Bayer said that a guilty verdict for former prime minister Tymoshenko in the gas contracts case may become a reason for appealing to an international court of

arbiters, however the chances of terminating the contracts in this case are very low. "There is no prospect that the court's ruling will be in favor of Ukraine (in this case – editor's note)", Bayer said.

Tanya Bayer was also skeptical about prospects to revise the gas contracts based on the reorganization of Naftohaz Ukrayiny and evidences of breaching Ukrainian national legislation. She believes that the only possibility, that could become a reason for revising the gas contracts, is the fact that the contract price is not a market price. The German diplomat said that the EU rules out a new gas row between Ukraine and Russia. According to Bayer, the EU believes that the parties shall abide by the terms of the contract and act within the legal framework.

**The Head of the Economic Sector at the Russian Embassy in Ukraine, ALEKSEY URIN**, upheld his colleague's opinion adding that Russia sees no grounds for changing or cancelling the gas contracts or for another gas row. "There are no reasons for doing that. The Russian party completely fulfills the conditions of the contract. The buyers are dissatisfied with the high price but there are no reasons for revising the contract. We have a contract that is valid till 2019", Urin said.

Urin also said that because of Ukraine's growing industry, the consumption of gas may rise up to 35bn.m.cu annually in the next few years, which is higher than the contractual volume (about 33bn.m.cu).

At the end of the discussion **Gorshenin Group Vice President OLEKSIY LESHCHENKO** suggested looking at Ukrainian-Russian relations in the gas sector from the viewpoint of their interdependence. "According to Gazprom data, a total of 139bn.m.cu. of gas was exported to Europe in 2010. Also according to Gazprom's data, the average price of gas for countries in Europe was about 306 dollars per 1,000m.cu. In 2010 Ukraine imported (between March 2010 and February 2011) about 37bn.m.cu. of gas from Russia, Naftohaz Ukrayiny paid Russia a total of 10,825bn dollars for imported gas", Leshchenko said.

Thus, according to Leshchenko, Ukraine consumes slightly less than a quarter (21%) of Gazprom's exported gas. "According to the information from open sources, Ukraine's share in Gazprom's export revenue is 25.4%. Therefore, it would be correct to talk about the interdependence in the gas relations between Ukraine and Russia", Leshchenko said.



On 5-7 September 2011, the Gorshenin Institute conducted a telephone survey devoted to the issue of medicine in Ukraine. As many as 1,000 randomly sampled adults, aged 18 years and older, living in all Ukrainian regions, as well as the cities of Kiev and Sevastopol were interviewed. The region, sex and age of the respondents were selected as quotas. The maximum margin of sampling error is +/-3.2 percentage points.

Based on the results of the survey, Gorshenin Institute's experts drew the following conclusions:

**The majority of Ukrainians (80.0%) are not satisfied with the quality of medical services provided for them.** As many as 40.3% of the respondents reported that they are «completely dissatisfied» with it and 39.7% said that they are «rather dissatisfied.» Around 18.3% of those interviewed are satisfied with the quality of medical services. Among them 15.1% were «rather satisfied,» while 3.2% were «completely satisfied.» Around 1.7% of the poll respondents had difficulty answering this question.

**An overwhelming majority of the survey respondents (93.3%) believe that the Ukrainian healthcare system needs to be reformed.** Around 4.3% of those polled said that such reform was unnecessary, while 2.4% of survey participants could not answer this question.

**Over half of Ukrainians (60.2%) find that expensive medications represent an acute problem of the healthcare system.** Approximately a third of respondents believe that the following issues are important: the absence of funding for medical establishments (35.6%), the need to pay for medical services (32.2%) and the absence of required equipment and medicines (30.1%). Nearly a quarter of the poll's participants reported the following problems: long queues in hospitals and other medical establishments (25.7%), an insufficient number of specialists and poorly trained medical personnel (24.9%). Additionally, Ukrainians identify the following issues as acutely problematic: a low quality of medical services (18.2%), underpaid medical personnel (16.2%), indifference of doctors (15.1%), bribes (12.8%), a poor condition of hospitals (10.8%), doctors overloaded with work (6.2%). Around 5.3% of Ukrainian citizens chose «other» as their response, while 1.2% of them did not provide an answer to this question.

**Approximately 40.2% of those interviewed would first seek medical assistance from a state-funded (free) hospital in case of a sickness.** A third of the respondents (30.1%) prefer to medicate themselves when they become ill. Around 5.6% of the poll participants would seek assistance at a private hospital or clinic, while 2.5% of them would prefer natural healers and non-traditional medicine. Nearly 5.3% of the respondents do nothing when they are sick, while 4.1% of those interviewed chose the «other» answer. As many as 12.2% of respondents could not answer this question.

**Over half of the Ukrainian population (54.2%) periodically purchases medicines.** At the same time, over a third of those polled (36.7%) admitted that they regularly buy medicines. Around 7.5% of respondents reported that they never purchase medicines, while 1.6% of them did not provide an answer to this question.

**When purchasing medicines, around 42.2% of Ukrainian citizens follow their doctor's prescription, while 36.8% of the respondents are guided by their personal experience.** The price of medicines is a decisive factor for 12.6% of poll participants. Nearly 10.4% of those surveyed follow the advice of a pharmacist, 6.6% follow recommendations of their friends and 1.9% use advertisements as a guide to buy medicines. Around 5.5% of those Ukrainians who were interviewed reported that they do not purchase medicines. Nearly 1.7% of the respondents did not provide an answer to this question.

**The majority of Ukrainian citizens (70.5%) acknowledged that the cost of medication was problematic for their families.** When asked whether the price of medicines posed a problem to their families, around 37.4% of the respondents said «rather yes than no», while 33.1% said that it was «definitely» a problem. At the same time, the price of medicines does not constitute a problem for less than a quarter of the Ukrainian population (22.4%). More specifically, when asked whether it was problematic, 11.8% of them answered «most likely no than yes», while 10.6% said it was «definitely not a problem.» As many as 7.1% of respondents did not answer this question.

## APPENDIX

### **1. In general, are you satisfied with the quality of Ukrainian medical services provided to you?**

1. Completely satisfied – 3.2%
2. Rather satisfied – 15.1%
3. Rather dissatisfied – 39.7%
4. Completely dissatisfied – 40.3%
5. No answer – 1.7%

### **2. In your opinion, does the Ukrainian healthcare system need to be reformed?**

1. Yes – 93.3%
2. No – 4.3%
3. No answer – 2.4%

### **3. In your opinion, what are the most acute problems faced by the healthcare system?**

*(you can choose several answers)*

1. Expensive medicines – 60.2%
2. The absence of funding for medical establishments – 35.6%
3. The need to pay for medical services – 32.2%
4. The absence of equipment and/or medicines – 30.1%
5. Long queues – 25.7%
6. The lack of specialists and poorly trained medical personnel – 24.9%
7. Low quality of medical services – 18.2%
8. Underpaid specialists – 16.2%
9. Indifference of doctors – 15.1%
10. Bribes – 12.8%
11. Poor condition of hospitals – 10.8%
12. Doctors overloaded with work – 6.2%
13. Other – 5.3%
14. No answer – 1.2%

**4. What do you do first when you become sick?**

1. Seek assistance at a state-funded, free hospital – 40.2%
2. Treat myself – 30.1%
3. Seek assistance at a private hospital – 5.6%
4. Seek assistance from non-traditional physicians – 2.5%
5. Do nothing – 5.3%
6. Other – 4.1%
7. No answer – 12.2%

**5. How frequently do you purchase medicines?**

1. Frequently – 36.7%
2. Sometimes – 54.2%
3. Practically never – 7.5%
4. No answer – 1.6%

**6. What guides your choice when you purchase medicines?**

*(please choose no more than three answers)*

1. A doctor's prescription – 42.2%
2. Personal experience – 36.8%
3. Price – 12.6%
4. Advice of a pharmacist – 10.4%
5. Advice of a friend – 6.6%
6. Advertisements – 1.9%
7. I do not purchase medicines – 5.5%
8. No answer – 1.7%

**7. Does the cost of medications pose a problem to your family?**

1. Definitely yes – 33.1%
2. Most likely yes than no – 37.4%
3. Most likely no than yes – 11.8%
4. Definitely no – 10.6%
5. No answer – 7.1%

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