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Negotiations on setting up a free trade area between Ukraine, EU completed. Ukrainian president's visit to Brussels postponed

On 20 October 2011, Ukraine and the EU announced that they had completed negotiations on setting up a free trade area (FTA).

"After intensive talks, we managed to agree all the key parameters of an FTA agreement," the Ukrainian first deputy prime minister and minister of economic development and trade, **Andriy Klyuyev**, said.

In his turn, EU Trade Commissioner **Karel de Gucht** added that the final text of the agreement had not been written yet and that experts would still have to draw up documents for the reached agreements. "I will not conceal that the recent developments in Kiev made us question the entire process of the negotiations," de Gucht said. At the same time, he added that the EU had decided to conclude the talks on an association agreement by the end of 2011. "Now the Ukrainian authorities have the task to create such political conditions which would make it possible for the agreement to materialize," he stated.

We shall remind you that on 19-20 October 2011, Ukrainian first deputy prime minister and minister of economic development and trade, **Andriy Klyuyev**, visited Brussels to discuss contentious issues in the setting up of a FTA with the EU.

Commenting on the conclusion of the technical negotiations on setting up an FTA, Gorshenin Institute's President **Vadym Omelchenko** noted that "the Ukrainian delegation headed by **Klyuyev** has done an excellent job." "Ukraine attained a regime of the highest trade and customs liberalization which has never been offered to a country outside the EU. The document is on the table and ready to be signed. Now the matter depends on the country's political leaders," **Omelchenko** explained.

It was previously assumed that Ukrainian President **Viktor Yanukovych** would pay an official visit to Brussels on 20 October 2011. There were plans that on that day, the parties would reach "a political compromise on those political issues which have not been resolved at the level of experts." In other words, the head of the Ukrainian state and the EU leadership were expected to declare the conclusion of the negotiations on an association agreement, which would incorporate a deep and comprehensive free trade area, to be signed during the Ukraine-EU summit in December 2011.

At the same time, the European Commission reported on 18 October 2011 that the visit of the Ukrainian president had been postponed.

The high representative of the European Union for foreign affairs and security policy, **Catherine Ashton**, explained that **the decision to delay the trip had been made by the** President of the European Commission **Jose Manuel Barroso** and President of the European Council **Herman van Rompey**. At the same time, Ashton's press service said that the decision had been taken by European politicians in order to stress the need for «achieving advances in ensuring the supremacy of law and the independence of the judiciary» in Ukraine.

We would like to note that the issue of a potential cancellation of the Ukrainian president's trip to Brussels arose after a Ukrainian court had jailed the leader of the opposition Fatherland party, former Prime Minister **Yuliya Tymoshenko**, which triggered a harsh reaction from the EU.

It is noteworthy that prior to the EU announcement on the rescheduling of President Yanukovych's visit, he said in an interview: «I am not going to come to anyone and to ask about a favour. We are partners. If there is a need to meet, I am

ready. If there is not, I will fly further». It is well known that on 20 October 2011, President Yanukovich paid a three-day visit to Cuba.

The editor in chief of the Ukrainian news and analysis website Lb.ua, **Sonya Koshkina**, believes that the decision to make a «technical pause» is the most lenient answer which Brussels could give to rather straightforward (if one does not call it explicitly rude) actions by Yanukovich. «It seems like no-one has allowed themselves to act so rudely with regard to European leaders. They were at such a loss that they need a break in order to think about what has happened and to devise a further plan of action», she wrote.

The mass media reported, citing the EU representative office in Ukraine, that the negotiations on the political part of an association agreement would take place in Kiev at the end of October 2011. During the meeting, the parties will discuss Ukraine's bid for EU membership and other contentious issues of the agreement, including its time frames and the terms for revising its provisions, including FTA norms. The Ukrainian party proposed to establish a 10-year time frame for the document, while the EU would like it to have no deadline.

We would like to note that Ukrainian President Yanukovich believes that the signing of an association agreement can be delayed if the EU is not ready to incorporate Ukraine's prospects for EU membership into the document.

«If you [the EU] are not ready to sign this agreement today, let's wait till tomorrow. Let's do it the day after tomorrow. Let's be patient. If there is anything you are unsure about Ukraine, let's take a look at how reforms will go further in Ukraine and at how we will implement them, » Yanukovich said.

At the same time, he expressed certainty that only such a principled position of Ukraine, which the EU presumably does not want to take into account, has an impact on the process of preparing an association agreement.

At the same time, the Ukrainian president ruled out the impact which other factors, including the trials of Tymoshenko and other former members of her cabinet, might have on the negotiations.

«We are taking a stance at present which our partners do not want to take into account. This is the most important if we talk about this negotiations process with the EU. There is nothing else. I am convinced that as time passes, it will put everything in its place when it comes to the Tymoshenko case. If she is not guilty, then a court will make a decision. This will be the decision of a court», the president stated.

It was previously reported that the EU leaders called on many occasions Tymoshenko's verdict as well as trials of other members of the previous government «politically motivated», adding that they would have an impact on the relations between Ukraine and the EU and on the signing of an association agreement.

We would like to note that according to unconfirmed information, President Yanukovich might visit Brussels in mid November 2011.

Heads of CIS states sign free trade agreement

On 18 October 2011, the council of heads of the Commonwealth of Independent States (CIS) convened in St Petersburg.

It was attended by representatives of all CIS states. After the meeting, the government heads signed an agreement on a free trade area (FTA). Such countries as Ukraine, Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Moldova and Tadjikistan became signatories to the agreement. It is expected that Azerbaijan, Turkmenistan and Uzbekistan will decide on their participation in the FTA by the end of 2011.

As Russian Prime Minister **Vladimir Putin** declared, the issue here is the creation of a new basis for trade and economic relations within the CIS framework.

We would like to note that the new agreement will replace an outdated accord from 1994.

Experts believe that the main positive aspect of signing a new FTA agreement is the adaptation of free trade to WTO norms and the thrashing out of the procedure for dispute resolution among CIS states. The implementation of anti-dumping and compensatory measures, technical barriers, sanitary and phyto-sanitary norms should also be in line with WTO norms.

At the same time, it is worth noting that the signed agreement excludes several Ukrainian products.

«The issue has to do with the exclusion of those groups of products which represent a fiscal interest for the budgets of our countries, including for Russia's budget. These are the kinds of products used to fill our budget. The matter pertains to energy, metals and some other products,» Putin said. At the same time, he stressed that the parties proceeded from the fact that the exclusions would be eventually cancelled although the dates for this have not been set yet.

In his turn, Ukrainian Prime Minister **Mykola Azarov** said that sugar, oil and gas were among the products which the agreement excluded for Ukraine. At the same time, he added that there were no exclusions for the majority of products which are strategic for Ukraine.

Prime Minister Azarov expressed a hope that the FTA agreement with the CIS states will be enacted on 1 January 2012. According to him, if the agreement is implemented in 2012, it might bring additional funds worth around 1.2bn dollars for the state budget.

At the same time, the head of the Ukrainian government said that Ukraine's next step would be the signing of an FTA agreement with the EU.

In its turn, the European Commission does not recognize a direct impact of the FTA agreement signed between Ukraine and the CIS on the relations with the EU.

Former economy minister, MP **Sergiy Teriokhin** (YTB), who has a copy of the signed agreement, claims that by signing the document, Azarov knowingly put Ukraine under unfavourable conditions. In particular, the agreement introduces unequal restrictions on imports and exports of certain goods. Also, according to Teriokhin, the new agreement is actually legalizing all exemptions from the CIS free trade zone, since the previous agreement signed 1993 assumed no export duties, so theoretically, Ukraine could challenge in court all exemptions imposed on Ukrainian

products, but now such a possibility is out of question. Moreover, under the new agreement, all international disputes from now on will be settled in “the Economic Court of the CIS,” which is located in Russia, and therefore operates under the jurisdiction of Russia. Previously, all disputes were settled by the arbitration court of a third country.

According to Teriokhin, by signing the document, Azarov violated three articles of the Criminal Code, particularly article 364 “Abuse of power or position,” article 365 “Excess of power or position” and 367 “Neglect of official duty.”

In his turn, leader of Front Zmin (Front of Changes) party, MP **Arseniy Yatseniuk** demanded that Azarov tell whether he received any authority to sign the agreement on the CIS free trade zone.

We would like to note that the Ukrainian opposition government declared that opposition MPs intended to request that Ukrainian Prosecutor-General **Viktor Pshonka** launch a criminal case against Prime Minister Azarov.

We would like to note that on 21 October 2011, the commission secretary of the Customs Union of Russia, Belarus and Kazakhstan, **Sergey Glazyev**, said that free trade between Ukraine and the EU, an agreement on which is currently in the works, represented a potential threat for the CIS market.

«I do not rule out that any of the parties [CIS] will demand at any point consultation on an FTA with the EU», Glazier noted. According to him, if this consultation establishes that there is an actual threat, then the FTA agreement with the CIS might incorporate new protective measures.

Commodity turnover between Russia and Ukraine exceeds 50 billion dollars, both countries consider switch to ruble payments

Ukraine and Russia are considering the possibility of switching to mutual payments in Russian rubles.

In the near future, the finance ministers and central bank chairmen of Russia and Ukraine are going to hold talks on the possibility of making payments in mutual trade transactions in Russian rubles. The agreement was reached during the meeting between two countries' prime ministers **Putin** and **Azarov**, the press secretary of the Russian government head, **Dmitry Peskov**, said on October 18, 2011.

As the Ukrainian prime minister explained later, during the meeting “we discussed the possibility of making payments in the gas sector in rubles.” He added that “the sooner Ukraine starts paying for Russian gas in rubles, the better.” In his opinion, Ukraine will benefit from paying Russia in rubles not only for gas, but also for other goods.

As it was reported, on October 18, 2011, President of Ukraine **Yanukovych** said that the commodity turnover between Ukraine and Russia in 2011 exceeded 50 billion dollars for the first time in the history of the two countries' bilateral relations.

It should be noted that the Party of Regions members are not inclined to overestimate the benefits that the switch to Russian ruble payments can bring to the Ukrainian economy.

“In any case, all the natural gas payments, all the large payments are tied to the dollar. Ukraine will not be able to make payments in rubles because all Gazprom's settlements are performed in hard currency. This means the proposition to switch

to the ruble applies only to commodity transactions. It should make the procedure simpler on the technical side, but not in terms of its content," head of the parliament subcommittee on international economic policy, member of the Party of Regions Oleksiy Plotnikov said.

At the same time, deputy head of the YTB faction in the parliament **Serhiy Sobolev** believes that the possible switch to payments for natural gas in Russian rubles would bring no benefits to the Ukrainian economy. According to him, in the event of the sides reaching agreement, Ukraine will have to convert part of its gold and currency reserves into the Russian ruble, which is losing its value against stronger currencies, such as the US dollar and euro.

It is worth mentioning that Ukrainian political scientist **Oleksander Paliy** says the switch to Russian ruble payments between Ukraine and Gazprom will benefit Russia in the first place. "Because Ukraine will have to buy the necessary amounts of rubles, and in any case, trading in the currency of a certain country is a big stimulus for the economy of this country," he explained.

Ukraine to explore possibility of joining Customs Union of Russia, Belarus, Kazakhstan

Ukraine will explore the possibility of switching to the technical provisions of the Customs Union of Russia, Belarus and Kazakhstan.

"I have tasked the Economics Ministry to take a look at the technical provisions [implemented within the framework of the Customs Union of Russia, Belarus and Kazakhstan] from the perspective of a possibility of us joining them. We believe that this will at least make trade among our states easier," Ukrainian Prime Minister **Azarov** said during a meeting of the Euroasian Economic Community's council on 19 October 2011.

For his part, Russian Prime Minister **Putin** said that this decision was "a very important step forward" towards Ukraine's integration into the Customs Union. He stressed that the Customs Union states "will spare no effort to agree all the provisions pertaining to this direction of cooperation."

Later he added that if Kiev is ready, the Customs Union will be ready to negotiations on Ukraine's membership in the organization. "If Ukraine at any stage of its development, by taking a pencil in hand and by calculating on a piece of paper what costs what, will arrive at a conclusion that this makes sense, then we will be ready to initiate a direct dialogue on Ukraine's joining these integration associations," Putin said.

In his turn, Russian President **Dmitriy Medvedev** said in Donetsk on 18 October that Russia did not set any specific dates for Ukraine to resolve the issue of the membership in the Customs Union. At the same time he stressed that it was impossible to join the organization following a special format.

We would like to note that the Ukrainian deputy prime minister and the social policy minister, **Serhiy Tyhypko** did not rule out that Ukraine might join the Customs Union of Russia, Belarus and Kazakhstan in case Europe does not want to continue its cooperation with Kiev.

"If the EU absolutely clearly signals 'No', then the probability of reorienting on the Customs Union is quite large," Tyhypko said on 18 October 2011.

We shall remind you that the same opinion was previously voiced by the speaker of the Supreme Council of Ukraine, **Volodymyr Lytvyn**.

asked about the essence of the accusations and asked him to formulate it. However, we did not receive an answer to this question,» Vlasenko said. He added that he was in the remand centre with Yuliya Tymoshenko on Wednesday and that an investigation into the YESU debt case was not conducted on that day.

We shall remind you that on 13 October 2011, the head of the Main Investigation Directorate of the Security Service of Ukraine (SBU), **Ivan Derevyanko**, said that Tymoshenko was charged under Article 19 of the Criminal Code, which deals with «The appropriation, misuse or embezzlement by exceeding authority» The article envisages up to 12 years in prison as a punitive measure. In particular, the prosecution accused Tymoshenko of conspiring with former Ukrainian Prime Minister **Pavlo Lazarenko** to transfer from the Ukrainian state budget a 405.5m-dollar debt owed by the Yedyni Enerhetychni Systemy Ukrayiny (Single Energy Systems of Ukraine) (YESU) company, which she headed and owned at the time, to the Russian Defense Ministry.

We would like to note that Ukrainian Justice Minister Oleksandr Lavrynovych said that the Ukrainian Finance Ministry had no information at its disposal which would confirm that the state guaranteed YESU's debt repayment.

«As a state, Ukraine is not responsible for the actions of economic entities,» a letter of the Justice Ministry of 26 June 2011 said in response to a request of the head of a temporary investigation commission of the Supreme Council of Ukraine, MP of the Party of Regions **Inna Bohoslovka**. In her turn, Bohoslovka proposed not to take this letter into account since it was not an official response and contained only a preliminary analysis. Furthermore, according to her, the case against the former prime minister was launched over an attempt to transfer debts of the YESU private corporation to the state budget.

At the same time, Russian Foreign Minister **Sergey Lavrov** believes that the fresh case against Tymoshenko is linked exclusively to the debts of the private Ukrainian company. «The Ukrainian firm has a debt to the [Russian] Defence Ministry. This is all that I think about this issue», Lavrov said.

We would like to note that according to the information provided by the Yuliya Tymoshenko Bloc parliamentary faction, the government is preparing as many as 11 criminal cases against Tymoshenko.

Supreme Council of Ukraine refuses to introduce criminal responsibility for political persecution, while MPs restrict access to court rulings

On 20 October 2011, the Ukrainian parliament refused to adopt a draft law which would introduce criminal responsibility for political persecution.

We would like to point out that the draft law envisioned restricting rights of the Security Service of Ukraine (SBU) when it comes to political persecution of citizens and «for the freedom of speech, thought and the expression of political convictions» in particular.

On the same day, parliament adopted a law which cancelled the need to publish all court rulings by the single registry of court decisions.

Ukraine falls in the World Bank's 'Doing Business' ranking

As compared to 2011, Ukraine has retreated three positions in the ranking on ease of doing business to take 152nd place.

The International Finance Corporation and World Bank published the new rating report Doing Business 2012: Doing Business in a More Transparent World on October 20, 2011.

Thus, Ukraine remains the worst country in the CIS with regards to ease of doing business after Uzbekistan, which occupies 166th place.

"As the competition for investment globally heats up, we are seeing acceleration in the pace of reforms to improve the business climate," said Martin Raiser, World Bank Country Director for Ukraine, Belarus, and Moldova. He also noted that Ukraine made some positive steps, but other countries are moving faster. To regain investor confidence, Ukraine will need a more determined and consistent effort across tax policy, customs policy, regulatory policy and in the area of enforcement of contract and property rights.

According to Ukrainian Prime Minister **Azarov**, the World Bank report does not reflect the real situation in Ukraine.

Fitch revises Ukraine's outlook to stable from positive

Fitch ratings has revised the Outlooks on Ukraine's Long-term foreign and local currency Issuer Default Ratings (IDRs) to Stable from Positive.

Also Fitch affirmed the Long-term IDRs at 'B' and Short-term IDR at 'B'. Fitch has simultaneously affirmed Ukraine's Country Ceiling at 'B'.

"The balance of risks facing Ukraine is now better reflected by a Stable Outlook, following an increase in sovereign external borrowing costs and associated concerns about external financing, as well as the impact of a forecast slowdown in global growth," says Charles Seville, Director in Fitch's Sovereign group.

The European Bank for Reconstruction and Development lowers Ukraine's GDP growth forecast for 2012

The European Bank for Reconstruction and Development (EBRD) has revised downwards its forecast of Ukraine's GDP growth in 2012 from 4.5% to 3.5%.

The EBRD also expects slower growth of the Ukraine's economy in 2011, and thus has decreased the country's GDP growth forecast from 5% to 4.5%.

In addition, the EBRD has changed two other forecasts for 2011. In particular, the Bank has worsened its forecast of the current account deficit from 3.6% to 3.9% of the GDP, and cut the inflation outlook from 9% to 8.4%.

As reported earlier, the International Monetary Fund (IMF) revised its forecasts of Ukraine's development for the near future. In the World Economic Outlook report, the IMF increased Ukraine's GDP growth forecast for the current year from 4.5% to 4.7%, but worsened the 2012 forecast from 4.9% to 4.8%.

IMF mission to arrive in Ukraine in next few days

IMF names the date of its visit to Ukraine.

"An IMF mission will visit Ukraine during October 25 – November 4 to continue the discussions on the second review under the Stand-By Arrangement and the 2011 Article IV consultation," **Max Alier**, the IMF Resident Representative in Ukraine, said on October 20, 2011.

It should be noted that Deputy Prime Minister and Minister for Social Policy

**Party of Regions
refuses to
decriminalize article
under which Yuliya
Tymoshenko was
convicted**

The ruling Party of Regions has refused to debate in a speedy mode the draft law on decriminalizing economic offences.

The Ukrainian news and analysis website Lb.ua reported that on 18 October 2011, the opposition MPs proposed to debate the presidential draft law on decriminalizing economic offences with the consideration given to the amendments excluding from the Criminal Code the articles under which **Tymoshenko** was charged. In particular, they proposed to drop the following articles: Article 365 dealing with abuse of power and Article 191 dealing appropriating, misusing property or embezzling it by means of overstepping authority.

The opposition MPs insisted on the speedy adoption of the draft law in view of President Yanukovych's planned visit to Brussels. The opposition did not know at that point that the visit had been postponed.

In response to the proposal from the opposition, the Party of Regions said that the draft law on the decriminalization was under consideration of a standing committee at the time and would not be adopted in the nearest future. Additionally, the Party of Regions said that the article under which former Ukrainian prime minister Tymoshenko had been convicted would not be decriminalized even after the adoption of a new draft of the Criminal Procedures Code and Criminal Code.

«The faction is categorically against amending legislation for one person» the head of the Party of Regions parliamentary faction, **Oleksandr Yefremov**, said on 18 October 2011.

**Yuliya Tymoshenko's
lawyers draw up
appeal**

The lawyers of former Prime Minister Tymoshenko has drawn up an appeal in the «gas case.»

«The appeal is ready. Currently, it is undergoing a technical proof reading and adjustment. It will be filed in the nearest future,» the head of the lawyers' group of the former prime minister, **Serhiy Vlasenko**, said. He added that the deadline for filing an appeal was on Wednesday, 26 October 2011. «As soon as the appeal is ultimately agreed upon, it will be signed and filed in accordance with the current legislation,» he explained.

«We collected basic and the most egregious violations which took place during the investigation and during the trial,» Vlasenko concluded.

**Tymoshenko
questioned over fresh
criminal case as
suspect**

On 18 October 2011, Tymoshenko was questioned as a suspect in the new criminal case over debts of the Yedyni Enerhetychni Systemy Ukrayiny (YESU) corporation.

«Tymoshenko is a suspect in this case. There was a criminal case launched against her. A resolution was issued to involve her as a suspect. Yesterday, she was questioned as an accused person in the presence of her lawyer,» Ukrainian Prosecutor-General **Pshonka** said on 13 October 2011.

Later, Tymoshenko's lawyer in the new criminal case, **Serhiy Vlasenko**, said that during the questioning session, an investigator could not explain to the defence the essence of the accusations in the case over the YESU debts.

«We started to ask him the simplest questions which he could not answer. That is why he started to retell the ruling [on involving Tymoshenko as a suspect]. We

Serhiy Tihipko hopes “the negotiations with the IMF should yield another tranche of the loan [for Ukraine] as early as the end of 2011.” “It might be even a double tranche – about 3 billion dollars,” he said.

“The IMF is not interested in the tariffs increase, but it rather wants to see an improvement in the financial state of Naftohaz Ukraine. We can change the situation in two ways – either by raising the tariffs for the public or by reducing the price of natural gas. The government's task is to find an optimal solution to this problem,” Tihipko said, noting that “no tariff increase is expected, and the government is doing everything possible for this.”

It is worth mentioning that during the roundtable “Ukraine and the IMF: What's Next?” held at the Gorshenin Institute on October 18, 2011, experts arrived at the conclusion that Ukraine would not receive the next tranche from the fund by the end of 2011.

For more details see p.14

Ukraine lifts export duties on wheat and corn, introduces zero-rated value added tax

On October 22, 2011, the law abolishing export duties on corn and wheat came into force in Ukraine. The duties were imposed on July 1, 2011.

At the same time, the law introduces the export duty on barley at 14%, but not less than 23 euros per ton.

It should be noted that one day earlier, on October 21, 2011, the Ukrainian Parliament approved a zero-rated value added tax (VAT) on exports of grain crops (excluding rice and buckwheat), sunflower and rapeseed by introducing the respective amendment to the government bill making changes to the Tax Code aimed at simplifying the taxation system.

Therefore, the Verkhovna Rada of Ukraine has essentially restored the export regime that was in force before July 2011, but with slight adjustments. In particular, the regime will apply only to producers of agricultural goods and companies that buy such goods directly from producers.

According to experts, the new export regime will benefit all grain traders, especially those companies that have sufficient grain reserves and purchased grain at bottom prices. It should be noted that grain prices on the local market have dropped substantially in the recent months due to the additional tax burden. Recommendations were made to agribusinesses to hold back their grain, but some companies performed trading and sold their products, especially the most vulnerable producers that needed cash to conduct the autumn sowing campaign and/or had insufficient grain storage capacities.

Since the season began, multinational companies have performed no active purchase of grain, expecting news on the export regime and abolition of the export duties. Only a few players were buying grain. Among them was the notorious KhlebInvestBud Company.

According to media reports, at the end of September 2011, KhlebInvestBud purchased 3 million tons of grain on the domestic market at spot prices through 22 of its regional subsidiaries. In addition, as part of its commercial forward project, the company made contracts for 500 thousand tons of corn, which during the harvesting campaign was coming from producers to a certified elevator. At the same time, the company's export volumes in July-September were relatively low and totalled just 450 thousand tons. It is much more

profitable to export the accumulated grain reserves under the current liberal conditions than it was one month ago. In addition, the company will be able to claim VAT refunds, and will probably have no problems with receiving such payments.

It worth mentioning that KhlebInvestBud received the biggest quotas for grain and corn exports from the government during 2010-2011, when exports of grain were restricted in Ukraine. According to the mass media, the company is controlled by the Minister of Agrarian Policy of Ukraine **Mykola Prysiashniuk** and MP **Yuriy Ivaniushenko** (ruling Party of Regions), who supposedly has close ties with President **Yanukovych**.

It should be noted that according to the Ministry of Agrarian Policy of Ukraine, as of October 17, 2011, Ukraine had harvested 45.85 million tons of grain, which is 19% up on the same date in 2010.

**Government to sell 48
gas distribution
companies****Naftohaz Ukrainy being stripped of assets.**

On October 10, 2011, the Cabinet of Ministers of Ukraine decided to transfer state-owned stakes in 48 gas supply and distribution companies (also known as miskhaz/oblhaz) from the national joint-stock company Naftohaz Ukrainy to the State Property Fund of Ukraine for their subsequent privatization.

According to the cabinet's resolution, the state shareholdings will be transferred to the State Property Fund within a month. As is the case with electric power supply and generation companies, the government will retain 25% stakes in the mentioned gas supply and distribution companies. However, if Naftohaz Ukrainy owns less than 25% in a miskhaz (local gas Distribution Company) or oblhaz (regional gas distribution company), the government will sell its entire holding in such a company.

**Mass media: Europe
restricts visa issuance
to Ukrainian
authorities****According to the information circulated by the mass media, consulates of several EU states have received informal orders to restrict the issuance of visas to certain categories of Ukrainian authorities.**

A source from the Ukrainian parliament said that assistants of MPs and those working for the judiciary had already experienced problems with visas.

This information from the mass media was conformed by the head of parliamentary committee for foreign affairs, **Oleh Belorus**. «This is a reaction of the EU states to the inability of our government to keep the promises which it gave to the top EU leadership», he said. «Visa refusals are the first stage of sanctions. I learned that they will consider the issue of implementing individual sanctions against the top officials in the judiciary and prosecutor's offices. Currently, sanctions may affect state authorities of any level,» the MP stressed.

We shall remind you that former US ambassador to Ukraine, **Steven Peiffer**, said earlier that Washington had also started to talk about a "black list" for Ukrainian officials.

It is noteworthy that the deputy head of the opposition Fatherland party, **Hryhoriy Nemyrya**, also said earlier that both the EU and the USA discussed the possibility of implementing individual sanctions to the individuals involved in the criminal persecution of former Ukrainian Prime Minister Yuliya Tymoshenko. This would affect family members of the Ukrainian authorities, including President **Yanukovych**. «I already know at this point that Western

business partners of some Ukrainian oligarchs, who either have joint enterprises or plans of such joint enterprises, are seriously concerned that their economic interests would suffer if such sanctions are introduced. This is serious», Nemyrya said.

At the same time, the EU representative office in Ukraine said that the EU states did not introduce restrictions on visas for any categories of Ukrainian citizens.

The Ukrainian Ministry of Foreign Affairs also denied this information.

Over 30bn t of industrial waste accumulated in Ukraine

The ecological situation is deteriorating in Ukraine.

“The situation in the environmental sphere of Ukraine can be characterized today as quite unstable. The use of water resources is in general inefficient. The state of land resources nears critical. The general amount of accumulated waste has reached over 30bn t, including 2bn t of hazardous waste. The manmade and technogenic burden on the environment is several times higher than the indicators in other countries,” the Ukrainian first deputy ecology minister, **Mykola Romanov**, said on 20 October 2011.

He also noted that the ecological component “is weakly integrated into economic processes of companies. The implementation of new ecologically clean technology and the sharing of new experience take place very slowly,” he added. “Certain companies still use outdated technology and equipment which do not allow to achieve the most efficiency as a result of excessive use of all the energy types, natural resources and a large amount of waste, including hazardous,” Romanov stressed.

Metallurgical employees forced to join Party of Regions

Employees of Donetsk Region's Mariupol-based Ilyich metallurgical plant and the Azovstal metallurgical plant are forced to join the Party of Regions, the Council of Public Organizations of Mariupol has reported.

“Representatives of the city public organizations noted that according to the information at their disposal, employees of the companies owned by the oligarchs belonging to the ruling party are forced en masse – either by persuasion or by threats to be fired – to join the Party of Regions. They receive filled out applications for joining the party. A person signing such an application gives his consent to all the entry requirements, including a deduction of membership fees,” a statement of the organization said.

The same statement also pointed out that employees of the above mentioned plants sought assistance of representatives of independent public organizations saying that they “are forced to join the ranks of the Party of Regions under the threat of being fired. They also said that in case of non-compliance, those who work under a contract will not get it renewed upon its expiration.”

Representatives of public organizations believe that this is how the Party of Regions wants to establish total control over people and to physically put on their shoulders the burden of financially supporting the party as people would have to pay membership fees.

We would like to note that the Ilyich and Azovstal plants are structural entities of the financial-industrial group System Capital Management owned by Ukrainian businessman, MP of the Party of Regions **Rinat Akhmetov**. According to the Ukrainian mass media, he belongs to the close entourage of President **Yanukovych**.

Ukraine, Russia draw up draft agreement on rearming Black Sea Fleet

Ukraine and Russia have prepared two additional draft agreements on the issue of the Black Sea Fleet's stay in Crimea, Russian Defence Minister Anatoliy Serdukov said during a meeting with his Ukrainian counterpart Mykhaylo Yezhel on 19 October 2011.

According to Serdukov, the issue has to do not with the expansion of the Black Sea Fleet, but rather with a replacement of the old military equipment.

The parties discussed issues of military and military-technical cooperation as well as the progress in the preparation for the fifth meeting of the Ukrainian-Russian intergovernmental commission, which is headed by Ukrainian President **Yanukovych** and his Russian counterpart **Medvedev**.

The agenda of the negotiations features reform of the armed forces, the use of the NITKA training ground for airborne aviation, the training of Ukrainian servicemen in military institutions of the Russian Defence Ministry, as well as fixing Russian boats by Ukrainian companies.

We would like to note that a survey conducted by Gorshenin Institute in April 2010 suggested that a majority of Ukrainians (56.4%) have a positive attitude towards the stationing of Russia's Black Sea Fleet in Ukraine until 2047.

Ukraine should not expect funds from the IMF by the end of 2011 – experts

Experts reached this conclusion during a roundtable devoted to the topic “Ukraine and the IMF – What is next?” which Gorshenin Institute held on 18 October 2011.

“Current conversations about whether or not we need money are pointless. We need it. I do not know how the government will manage to get an allocation,” **the head of Razumkov's Centre economic programs, VASYL YURCHYSHYN**, said. At the same time, he pointed out that the situation looked like Ukraine should not expect funds from the IMF before the end of 2011.

The expert also believes that with a high level of GDP growth, a low level of official inflation and anticipated budget revenues, Ukraine will experience lower living standards in the near future. According to him, this will happen because of a discrepancy between the actual and official level of inflation. This is exactly “the source which increases both GDP and the budget.” Vasyl Yurchyshyn explained his stance by the fact that the actual inflation level is much higher at present than reported figures. In its turn, this allows talk about a rise of nominal GDP that serves as a basis for increasing budget funds. “High nominal GDP, a low level of official inflation and a low deflator provide for a high level of real GDP. This will give the authorities an opportunity to say that we have unprecedented growth. Furthermore, this will be confirmed by the funds going into the budget, which will fill up with nominal hryvnyas. However, the actual value of these hryvnyas will drop substantially. We have a situation when, on the one hand, it seems like everything is fine and things are nominally accomplished. Yet, actual living standards will become lower,” Vasyl Yurchyshyn said.

The head of Raiffeisen Bank Aval's analysis and research department, DMYTRO SOLOHUB, believes that an IMF tranche is not only a resource for the financial system but also a signal for investors. “The IMF funds are crucially important for Ukraine as money for strengthening the position of the National Bank and as a factor of investors' trust,” the expert said.

Dmytro Solohub also noted that thanks to the National Bank's strict monetary policy, the exchange rate of the hryvnya remains stable on the background of a fall of other regional currencies in respect to the dollar.

Assistant director of Bleizer's International Fund, OLEH USTENKO, is convinced that Ukraine needs loans from the IMF in order to support the stability of the system but that it will face difficulties receiving them if it gives up unpopular reforms. Additionally, he believes that Ukraine needs reforms not only to receive funds from the IMF but for the state economy. “If the decision is to be made by the IMF board of directors, then it will be extremely difficult to explain to Greece, France, Austria, Germany and Poland, which are implementing a number of unpopular measures, why Ukraine does not adopt the same measures but still receives funds. In reality, Ukraine does not need that money... Mr [Mykola] Azarov is right when he says that the money is not needed that much and that a signal is needed. It is necessary to cooperate with the IMF to try to maintain a relatively stable situation, especially on the background of intensifying competition in the world for any additional financial resources and especially such cheap ones as those from the IMF,” the expert said.

According to the president of the Association of the Ukraine Banks (AUB), OLEKSANDR SUHONYAKO, given the existing all-encompassing debt crisis, which affects entire countries and individuals, “all countries need funds at present”. “I do not know a single country which would say that it does not need resources at present,” the AUB director said. However, according to him, the population of Ukraine has a volume of savings that exceeds debts and that may become an additional source of funds if the state can regain the trust of citizens. “There was information that the population holds 60bn-70bn dollars in its hands. This is more than the volume of sovereign debt. It is also more than debt repayments in 2012, 58bn dollars. The problem is that it is necessary to make the population believe [the government] and bring [funds]. Only when the population come, will foreign investment then follow the money of domestic investors,” the expert opined. The AUB chief noted that it would be difficult for Ukraine to receive loans from the IMF because of huge competition for these resources.

On 11-13 October 2011, Gorshenin Institute conducted a telephone survey about morality in Ukrainian society. 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 respondents were selected as quotas. The maximum margin of sampling error is +/-3.2 percentage points.

Do you support the return of the death penalty in Ukraine?
(you can choose several options)

- No, regardless of the circumstances – 30.8%
- Yes, for serious crimes against people (murder) – 38.4%
- Yes, for raping a minor (paedophilia) – 25.7%
- Yes, for producing and distributing drugs – 14.9%
- Yes, state authorities for taking especially large bribes – 14.3%
- Yes, for organizing a terrorist act – 6.7%
- Yes, for appropriating state-owned property – 5.6%
- Yes, for staging a state coup – 4.2%
- Yes, for attempting to kill the president of the country – 3.8%
- Yes, for treason (spying to serve the interests of another country) – 3.2%
- Yes, for other crimes – 2.9%
- No answer – 2.6%

Are you personally for or against the legalization of euthanasia (suicide with medical assistance) in Ukraine?
(you can choose several options)

- Categorically against regardless of circumstances – 37.1%
- Yes, in the case of a fatal disease which makes a sick person suffer – 36.8%
- Yes, if one wishes to do so without any explanations – 15.7%
- Yes, in the case of a long-term comma – 8.2%
- Yes, when one is old and after becoming a certain age – 2.5%
- No answer – 5.3%

Do you condemn those who commit suicide?

- Condemn – 59.7%
- Do not condemn – 26.1%
- No answer – 14.2%

How frequently do you think about death?

- Frequently – 15.4%
- Sometimes – 45.8%
- Never – 38.8%

In your opinion, why does one adhere to moral norms?

- Personal convictions – 52.3%
- To look good – 35.8%
- Other – 2.4%
- No answer – 9.5%

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