



Gorshenin

Weekly

ISSUE #47(116) 12/03/2012

Content**1. International political****Ukraine-EU**

EU says association agreement with Ukraine may be signed next autumn...page 4.

Ukraine wants to discuss South Stream with Europe...page 4.

Ukraine-Russia

Ukraine says Russian gas purchase to drop sharply...page 5.

2. Domestic political**Authorities**

President to form new cabinet once parliamentary majority is in place...page 5.

Party of Regions days from forming parliamentary majority...page 5.

New parliament to have more committees...page 6.

Interior minister planning to keep his post...page 6.

President signs law on referendum...page 6.

Ukrainian president signs law on biometric passports...page 7.

Opposition

Ukraine's jailed ex-interior minister says being pushed to disability...page 7.

3. Parliamentary election

Ukraine among countries with lowest respect for supremacy of law...page 8.

PACE passes report criticizing Ukraine's parliamentary polls...page 8.

4. Human rights

Ukrainian opposition party candidate challenges parliamentary election results in European court...page 9.

5. Economics

Cabinet approves 2013 macroeconomic indicators...page 9.

Ukraine yet to request new IMF mission...page 9.

IMF expects decline in Ukraine's foreign reserves...page 10.

WTO calls on Ukraine to withdraw its tariff review bid...page 10.

Ukraine increases budget deficit...page 10.

Ukraine may issue new VAT bonds...page 11.

Propresidential party MP tops richest Ukrainians list again...page 11.

Ukraine raises wheat export limits...page 11.

Energy minister denies Ukraine's coal supplies to Iran...page 12.

6. Energy market

Ukraine's new LNG terminal deal provokes scandal...page 12.

7. Society

Ukraine remains Europe's leader in HIV spread...page 13.

INTERNATIONAL POLITICAL

UKRAINE-EU

EU says association agreement with Ukraine may be signed next autumn

An association agreement between Ukraine and the EU may be signed during the Eastern Partnership summit in November 2013, the news and analysis web portal Lb.ua has quoted European Commissioner for Enlargement **Stefan Fule** as saying on 29 November 2012.

He said that the EU's intention to sign the agreement must be supported by consecutive steps by the Ukrainian government and new parliament towards meeting the requirements repeatedly announced by the EU.

Poland's ambassador to Ukraine, **Henryk Litwin**, later denied that Fule said that the association agreement with Ukraine would be signed next year. Litwin said Fule only expressed his hopes for this.

According to EUobserver, the Czech Republic, Lithuania, Poland and Slovakia are ready to sign the association agreement with Ukraine next autumn. However, Sweden, Finland, Denmark and the Netherlands believe that the association agreement should be frozen.

Spanish Secretary of State for the EU **Inigo Mendez De Vigo** said that any rapprochement steps with Ukraine depend on its specific efforts to release opposition leader **Yuliya Tymoshenko** and other political prisoners.

Germany's ambassador to Ukraine, **Christof Weil**, said the Ukraine-EU association agreement would be signed if Ukraine abandons selective justice and makes true progress in reforms.

The Swedish deputy ambassador to Ukraine, **Morten Enberg**, in his turn, said that the EU had not decided yet on the format of future cooperation with Ukraine.

The European Parliament is expected to discuss a resolution on Ukraine on 12-13 December.

Ukraine wants to discuss South Stream with Europe

Ukraine has requested once again that the Energy Community react to Russia's plans to build the South Stream pipeline, the Interfax-Ukraine news agency on 27 November 2012 quoted a government source as saying.

The Ukrainian cabinet said in its letter that "although there is the reliably operating gas transport system of Ukraine, certain member states of the Energy Community are working on participation in the South Stream project". Therefore Ukraine requested that the organization initiate consultations on the South Stream project as soon as possible.

Ukraine's ambassador to Turkey, **Serhiy Korsunskyy**, said in his article for the

Dzerkalo Tyzhnya weekly on 30 November that the construction of South Stream will be launched in Russia's Anapa on 7 December. Representatives of several EU countries, including Germany and France, are expected to attend this event. In his words, the project will once again be presented as a Russian-European initiative called to shore up the EU energy security. Korsunskyy notes that the Nord Stream pipeline built by Russia is filled less than by half, namely "out of two branches, only one is filled by half".

UKRAINE-RUSSIA

Ukraine says Russian gas purchase to drop sharply

Ukraine has notified Russia of its intention to buy only 18bn cu.m. of gas next year, Ukrainian Energy Minister **Yuriy Boyko** said on 26 November 2012.

When journalists asked him about Russia's reaction, he said: "Once we put our proposal on paper, we hope we will get an answer".

The same day, 26 November, Boyko had a working meeting with Russian Gazprom head **Aleksey Miller** in Moscow.

Andriy Bespyatov, the managing director at Dragon Capital, has said in an exclusive commentary for the news and analysis portal Lb.ua that Ukraine can save up to 3.4bn dollars by drastically cutting the import of Russian gas.

DOMESTIC POLITICAL

AUTHORITIES

President to form new cabinet once parliamentary majority is in place

President **Viktor Yanukovich** said on 26 November 2012 that the issue of forming a new government would ultimately be settled once he picks a new prime minister and a parliamentary majority is in place.

According to propresidential Party of Regions MP **Inna Bohoslovskaya**, there is one more candidate for premier in addition to incumbent **Mykola Azarov**, and the governor of the National Bank of Ukraine, **Serhiy Arbuzov**.

"There is also a third option I won't talk about. There will be no separate vote to endorse the prime minister. There will be a package vote to approve the whole cabinet and prime minister as its head," Bohoslovskaya said during a round table at the Gorshenin Institute on 29 November.

Party of Regions days from forming parliamentary majority

Some 223 newly-elected MPs have filed applications to join the Party of Regions faction in the parliament of the seventh convocation, its head **Oleksandr Yefremov** told the Den newspaper on 27 November 2012.

He said that the Party of Regions received fewer mandates based on the results of

the parliamentary election than it had expected. "Therefore we are working on forming a majority. It will largely depend on single-seat candidates who have not made their mind yet," Yefremov said.

The new parliament is expected to convene its first session on 12 December.

Sonya Koshkina, the editor in chief of the news and analysis portal Lb.ua, said in her article on 30 November that the Party of Regions, "even with the most optimistic arithmetic", relies on the support of 230-232 MPs. "This does not include the Communist Party." According to her, the Party of Regions is planning to elect a speaker already at the first session. The most likely candidates for the speaker's post are National Security and Defence Council Secretary **Andriy Klyuyev**, current speaker **Volodymyr Lytvyn** and Justice Minister **Oleksandr Lavrynovych**, she said.

New parliament to have more committees

The number of committees in the parliament of the seventh convocation is likely to increase from 26 to at least 30, sources in the pro-presidential Party of Regions told the Kommersant Ukraina business daily on 28 November 2012.

Interior minister planning to keep his post

Interior Minister **Vitaliy Zakharchenko** is planning to retain his post after the cabinet reshuffle, he said in an interview with the Expert magazine on 26 November 2012.

Asked whether he is expecting a new job in the presidential administration, he said: "I would like to bring police reform to its logical completion".

Earlier the LIGABusinessInform news agency quoted a source in the Party of Regions as saying that Zakharchenko is claiming the post of the presidential administration head. Another possible candidate for this post, according to the news agency, is National Security and Defence Council Secretary **Andriy Klyuyev**.

President signs law on referendum

President **Viktor Yanukovich** signed the Law "On all-Ukrainian referendum" on 27 November 2012.

According to the law, there are four types of all-Ukrainian referenda: legislative (laws are adopted or changed); ratification (the territory of Ukraine is changed); general (any issue, except budget, taxes and amnesty) and constitutional (a new wording of the constitution is adopted).

The law also introduces a novelty by excluding parliament from the process of implementing the results of a referendum. Currently, the effective constitution is the only document regulating changes to it. Changes to the constitution may be introduced only by parliament and only if they are approved by the constitutional majority (two thirds of all MPs, which is 300 and more).

The head of the United Opposition Fatherland political council, **Arseniy Yatsenyuk**, said that the new law aims at changing the constitution bypassing parliament and at Ukraine's accession to the Customs Union of Belarus, Kazakhstan and Russia through a referendum. The opposition will challenge the legitimacy of the law in the Constitutional Court.

The Party of Regions rejects the opposition's criticism.

On 13 November, the PACE Monitoring Committee decided to refer the referendum law for evaluation to the Venice Commission, the news and analysis website Lb.ua said.

Ukrainian president signs law on biometric passports

On 29 November 2012, Ukrainian President **Viktor Yanukovych** signed a law on introducing biometric passports.

Under the law, all Ukrainians, including babies, need to receive passports. It also envisions a biometric chip that has to be attached to a broad range of documents and the setting up of the single database containing information about citizens.

Earlier, public organizations, the Ukrainian ombudsman, the Justice Ministry and the Interior Ministry criticized the text of the law. However, the final draft law did not take into account their objections.

It is expected that the Ukrainians can start receiving new passports on 1 January 2013.

The author of the law on biometric passports and an MP of the propresidential Party of Regions, **Vasyl Hrytsak**, said that Ukrainians without new biometric passports might be denied entry into the EU starting from June 2013.

OPPOSITION

Ukraine's jailed ex-interior minister says being pushed to disability

Former Ukrainian Interior Minister **Yuriy Lutsenko** has not been receiving required medical treatment in the penal colony where he is serving his sentence. He wrote this in his letter to the head of the penal colony on 28 November 2012.

The former minister said that even after 20 days following a medical check-up which took place on 8 November, he had not received any medication prescribed for him by the specialists from the Ukrainian Health Ministry. "This shows that they are consciously pushing me towards disability," the letter read.

Earlier, on 26 November 2012, EU ambassador to Ukraine **Jan Tombinski** expressed concern regarding the appropriateness of the medical treatment provided to Lutsenko. He said this after visiting the former interior minister in the penal colony together with US ambassador to Ukraine **John Tefft**.

On 28 November, the head of the Ukrainian party UDAR, boxing champion **Vitaliy Klitschko** was denied permission to visit Lutsenko in the penal colony. "The

management of the penal colony said that Lutsenko was allowed one meeting per month and that the US ambassador has arguably used up this quota," he said.

On 30 November, the Ukrainian State Penitentiary Service said that Lutsenko had agreed to a medical check-up in a hospital outside the penal colony.

PARLIAMENTARY ELECTION

PACE passes report criticizing Ukraine's parliamentary polls

On 30 November 2012, an ad hoc committee for monitoring the Ukrainian parliamentary election of the Parliamentary Assembly of the Council of Europe (PACE) released its report.

The document stressed that despite the well-organized voting procedure, the process of vote counting was characterized by dragging out and a number of violations, especially in 13 first-past-the-post constituencies since the Central Electoral Commission could not establish actual results in five of them.

In this connection, the committee expressed serious concern and believed that these violations could distort the entire electoral process.

Overall, the committee believes that this parliamentary election was marked by the domination of large economic and financial groups, the use of administrative resources, the absence of transparency when it comes to the funding of the electoral campaign and parties, as well as by misbalance in the mass media.

On 29 November, US Secretary of State **Hillary Clinton** once again declared that the Ukrainian parliamentary election was a step back on the path towards the country's democratic development.

Ukrainian opposition party candidate challenges parliamentary election results in European court

A candidate of United Opposition Fatherland, **Viktor Romanyuk**, has filed a complaint with the European Court of Human Rights (ECHR) over the decision of precinct electoral commission No 94 that his opponent from the propresidential Party of Regions, **Tetyana Zasukha**, has become the winner in the parliamentary election in his constituency.

Following the count of 97 percent of votes in constituency No 94, Romanyuk was ahead of Zasukha with almost 10,000 votes. However, Zasukha received a court approval for a vote recount. As a result, the district commission decided to dismiss the voting results from 27 districts (30,000 votes) and declared Zasukha the winner.

The opposition did not succeed in challenging the illegality of these actions in Ukrainian courts.

Constituency No 94 is among the five single-seat constituencies in which the Ukrainian Central Electoral Commission failed to establish the voting results. It is expected that repeat elections will be held in these constituencies in March 2013.

HUMAN RIGHTS

Ukraine among countries with lowest respect for supremacy of law

An annual report on respecting the supremacy of law in the world, released by the World Justice Project (WJP) organization on 28 November 2012, Ukraine has become No 87 out of 97 countries included in the ranking.

The report pointed out that such a low evaluation of Ukraine stems from political interference in criminal procedures, as well as by impunity and corrupt courts.

The results of sociological surveys conducted by the Gorshenin Institute in 2007, 2009, 2010 and 2011 show that corruption in courts is considered to be among the most common types of graft. When asked "In your opinion, what can be bought for money?" the respondents participating in these polls most frequently named "a court's decision".

ECONOMICS

Cabinet approves 2013 macroeconomic indicators

According to the forecasts of the Ukrainian government, the growth of Ukraine's GDP in 2013 will come to 3.4 percent, inflation will total 4.8 percent, while the nominal GDP should reach 197bn dollars. These figures can be found in the macroeconomic forecast of social and economic development of Ukraine in 2013 which was approved on 28 November 2012.

According to a consensus forecast of the Ministry of Economics published on 26 November, the GDP growth in 2012 should total 1 percent, inflation should reach 2.3 percent, and the nominal GDP should grow from 165bn dollars to 178bn dollars.

As the Dzerkalo Tyzhnya weekly reported, Kiev has had little progress in agreeing 2013 budget macroeconomic indicators with the IMF. "We have an active discussion with the IMF [regarding the macroeconomic indicators]. They have disagreed with us," the newspaper quotes Economics Minister **Petro Poroshenko** as saying.

Ukraine yet to request new IMF mission

The Ukrainian authorities have not requested the International Monetary Fund (IMF) to send a negotiating mission with a purpose of resuming cooperation with the fund.

Director of the IMF External Relations Department **Gerry Rice** made a statement to this effect on 29 November 2012. At the same time he noted that the Ukrainian authorities have expressed interest in resuming a cooperation programme with the IMF.

On 30 November, Prime Minister **Mykola Azarov** said that an IMF mission will arrive in Kiev on 6 December to discuss the prospects for further cooperation with Ukraine. According to Kommersant Ukraina business daily, the mission will arrive to discuss the 2013 state budget draft.

As news and analysis website Lb.ua reported, the borrowing plan for 2013 projects drawing in more than 14.5bn dollars, including 4.3bn dollars in foreign loans.

On 30 November, governor of the National Bank of Ukraine **Serhiy Arbuzov** said that Kiev hopes to reach an agreement with the IMF on refinancing its debts.

IMF expects decline in Ukraine's foreign reserves

The International Monetary Fund (IMF) is expecting that the international reserves of Ukraine will drop from 26.8bn dollars (as of 31 October) to 24bn dollars by the end of 2012, news and analysis website Lb.ua reported on 30 November 2012, citing data from an IMF's report.

According to the Forbes Ukraine magazine, the foreign currency reserves in January-October declined by 16 percent, with the most significant reduction of 11 percent occurring in July-October.

In September, the National Bank of Ukraine spent 1.1bn dollars in international reserves on covering the deficit of the balance of payments. According to the IMF, in order to avoid problems with the balance of payments deficit, Ukraine needs to devalue the hryvnya by 13 percent.

WTO calls on Ukraine to withdraw its tariff review bid

Member states of the World Trade Organization have called on Ukraine to withdraw its notice on revision of import duties. According to WTO members, Ukraine's notice covers too many positions (371 items), which goes beyond the scope of provisions foreseen by the General Agreement on Tariffs and Trade. The corresponding statement was made on 26 November 2012. The statement was signed by 23 members of the WTO, including the USA, EU and China.

On its part, the Federation of Employers of Ukraine said that the WTO tariff revision rules contain no restrictions as to the scope of the positions being revised.

Ukraine filed its request for renegotiating 371 positions in September. WTO members should respond to Ukraine's request within 90 days from the date of filing.

Ukraine increases budget deficit

The state budget deficit in January-October 2012 rose to 4.15bn dollars, swelling by more than 1bn dollars in October alone. Year on year, the deficit increased by 2.7 times, the news and analysis website Lb.ua said.

The budget deficit ceiling for 2012 is set at 4.85bn dollars.

According to the State Treasury, the 2012 budget revenues plan in January-October was fulfilled by 73 percent. Budget revenues during the period amounted to 34.2bn dollars out of 46.8bn dollars planned for the year.

According to Economics Minister **Petro Poroshenko**, the budget revenues plan for 2012 will not be fulfilled to the full extent, but the authorities will not resort to budget slashing despite such underperformance.

According to former Finance Minister **Ihor Umanskyy**, this year the authorities will have to cut government spending due to lower revenues to the national budget. He believes that the government will try to provide full funding only for paying salaries and pensions.

“But I am afraid that there might be not enough money in the budget to cover even these costs, and in December we can see some problems with these payments. I won't be surprised if the government, in order to solve this problem, decides to postpone some social payments from late December to January 2013,” he said.

Ukraine may issue new VAT bonds

Prime Minister **Mykola Azarov** does not rule out that Ukraine may return to the practice of refunding VAT through issuing government bonds. “Most likely, from 1 January 1 [2013], we will make this decision,” he said on 27 November 2012.

According to news and analysis website Lb.ua, Azarov's government already issued VAT bonds in 2010. Also, this tool was used by the government of **Viktor Yanukovich** in 2004.

Propresidential party MP tops richest Ukrainians list again

The Korrespondent magazine published its seventh annual ranking of richest Ukrainians on 30 November 2012.

The pro-presidential Party of Regions' MP and owner of the SCM Holding, **Rinat Akhmetov**, is number one on the list with 17.8bn dollars (in 2011 his assets were estimated as 25.6bn dollars).

The owner of “Privat Group” **Ihor Kolomoyskyy** with B 3.4bn dollars (in 2011 – 6bn) is the second.

Akhmetov's partner in metallurgical business, [native Russian who recently obtained Ukrainian citizenship] the owner of Smart Holding, **Vadim Novinskiy**, who is a new man in the list, is the third with 3.3bn dollars.

Kolomoyskyy's business partner on “Privat Group”, **Henadiy Boholyubov**, is the forth with 3.25bn dollars (6.6bn dollars in 2011). The owner of the GroupGF Holding and head of the Federation of Employers of Ukraine, **Dmytro Firtash**, with 3.25bn dollars (2.25bn dollars in 2011) closes this year's top 5 list.

Ukraine raises wheat export limits

Regardless of the fact that Ukrainian grain exporters have come close to the wheat export limit of 5.5m tonnes, the government does not intend to ban export of wheat, the Deputy Minister of Agricultural Policy of Ukraine, **Ivan**

Bysyuk, said on 28 November 2012. He also said that “recent information on the balance now allows to continue exporting grain”.

President of the Ukrainian Grain Association **Volodymyr Klymenko** said that grain traders reached a verbal agreement with the Agricultural Policy Ministry to increase export of wheat from 5.5m tonnes to 5.8m tonnes.

Energy minister denies Ukraine's coal supplies to Iran

Ukrainian Energy Minister **Yuriy Boyko** has said he knew nothing of shadow schemes of supplies of coal from Ukraine to Iran. Boyko was speaking to journalists on 26 November 2012.

Earlier, in late October 2012, the Reuters new agency with a reference to a source in coal mining business said that Ukraine sells to Iran 170,000-200,000 tonnes of coking coal a month. Coking coal is an important component for steel production. Demand for coking coal has increased sharply in Iran after the EU banned import of steel to the country.

ENERGY MARKET

Ukraine's new LNG terminal deal provokes scandal

On 26 November 2012, a ceremony of the beginning of the liquefied natural gas terminal construction was held in Odessa Region. In particular, the building of the terminal's ground part - a pipeline that will connect it with the gas transport system - was kicked off. The construction of the ground part is funded by the state-owned company Ukrtranshaz.

Simultaneously with the ceremony, the government signed an agreement on cooperation with the Spanish company Gas Natural, which should head a consortium of investors for the construction of the terminal. From the Ukrainian part, the document was signed by the head of the State agency for national projects, **Vladyslav Kaskiv**, while the Spanish party was represented by **Gordi Sarda Bonvie**. The document was signed in the presence of Ukrainian Prime Minister **Mykola Azarov** and Energy Minister **Yuriy Boyko**.

The Lb.ua news and analysis website cited the text of the document as saying that the State agency for national projects will set up a joint-stock company in Ukraine, 75 percent of which will be controlled by Gas Natural. Specific obligations of the parties regarding the realization of the project should be discussed later.

Later, on 27 November, the Gas Natural company said that it did not sign any agreements with Ukraine and denied its plans to invest funds in the Ukrainian terminal.

The blogs of the Financial Times daily even discussed the information that Gas Natural had no idea who signed the agreement with Ukraine on its behalf.

Kaskiv attributed the statement made by Gas Natural to certain “technical difficulties”. For his part, Boyko said that Bonvie was present at all the previous

meetings and that Gas Natural developed a feasibility study for the LNG terminal.

Yet, we learnt later that Bonvie does not represent Gas Natural and only serves as an intermediary who has signed the agreement without being entitled to do so. Representatives of Gas Natural were not present at the terminal's opening ceremony.

The State agency for national projects said that the "incident" with Gas Natural was completely solved and that the Spanish company did not plan for now to participate in the investment into the terminal. This will not affect the implementation of the project, it added.

In its turn, the Ukrainian opposition demanded that the officials who are guilty of the scandal be punished.

SOCIETY

Ukraine remains Europe's leader in HIV spread

Ukraine has one of the highest rates of HIV spread in Europe, the United Nations Population Fund representative to Ukraine, **Nuzhat Ehsan**, said on 29 November 2012. Ehsan added that a total of 204,400 HIV-positive people have been registered in Ukraine as of 1 January 2012.

An opinion poll conducted by the Gorshenin Institute in November 2011 shows that 92.6 per cent of respondents consider AIDS a serious hazard to Ukrainians. Also, 49.9 per cent of respondents when asked "Is there a risk for you or your relatives and friends to catch HIV infection?" gave a positive answer.

Our contact information:

18b Mala Zhytomyrska st.,
Kiev 01001, Ukraine
+38 044 230 4962
+38 044 230 4966 f



For more information please visit our website
<http://gorshenin.eu/>