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INTERNATIONAL POLITICAL

UKRAINE-EU

EU member states over agreement with Ukraine

European Commissioner for Enlargement **Stefan Fuele** said on 4 December 2012 that seven EU member states, including Great Britain, France, the Netherlands, Sweden, Denmark, Italy and Spain, insist on Ukraine meeting the previously announced political conditions before an association agreement is signed. Meanwhile, Poland and Lithuania want the document signed as soon as possible.

According to a report by the Interfax-Ukraine news agency, the specific terms for signing the agreement are laid down in the Council of the EU draft resolution, which is to be approved on 10 December.

According to **Olga Shumylo-Tapiola**, an expert with the Carnegie Endowment for International Peace, if Ukraine fails to meet the EU conditions, there is a possibility that the agreement will not be signed in 2013. She made this statement at a round table at the Gorshenin Institute on 6 December.

Acting Prime Minister **Mykola Azarov** predicts that the agreement with the EU will be signed any time soon.

Poland calls on EU to cancel visas for Ukrainians

On 6 December 2012, Undersecretary of State at the Ministry of Foreign Affairs of Poland, **Katarzyna Pelczynska-Nalecz**, said that the EU should cancel visas for Ukrainians once the terms required for the visa-free travel plan are met without putting any additional conditions over the internal Ukrainian situation.

UKRAINE-RUSSIA

Ukrainian president speaks about steps towards Customs Union

Ukrainian President **Viktor Yanukovich** said at the CIS summit in Turkmenistan on 5 December that Ukraine needs to subscribe to certain provisions of the regulations on the Customs Union of Belarus, Kazakhstan and Russia, or else it will lose economically. Viktor Yanukovich and Russian President **Vladimir Putin** discussed the Customs Union and gas supplies at the summit.

US Secretary of State **Hillary Clinton** suggested that Russia might use the Customs Union to "sovietize" countries in Eastern Europe and Central Asia.

Tetyana Silina said in her article for the Dzerkalo Tyzhnya that if Ukraine joins the Customs Union, the EU's image will suffer a hard blow. Ukraine rejecting the EU prospect will mean Europe is losing its attraction, she said.

Ukraine expects Russian gas transit to grow next year

The Ukrainian Energy Ministry expects the transit of Russian gas across Ukraine in 2013 to increase up to 110bn cu.m. The ministry mentioned this in a memorandum

to the state budget draft, the news and analysis portal Lb.ua said on 4 December 2012.

Royalties calculated at current tariffs are expected to make 275m dollars.

Ukraine to appeal ruling on corporate debt to Russian Defence Ministry

On 5 December 2012, the Ukrainian Justice Ministry said it would file an appeal against a court ruling obliging Ukraine to pay Russia over 390m dollars indebted by the United Energy Systems of Ukraine corporation. The Russian side insists the debt was accumulated in late 1990s. The corporation, which was then headed by jailed ex-Prime Minister **Yuliya Tymoshenko**, failed to supply the Russian Defence Ministry with the agreed products. The contract was guaranteed by the Ukrainian government.

UKRAINE-UN

Foreign Ministry: Ukrainian delegation did not walk out during UN Palestinian vote

On 4 December 2012, the Ukrainian Foreign Ministry denied reports that Ukrainian diplomats walked out of the UN session hall during the vote on the Palestinian issue. The ministry said that the Ukrainian delegation just did not take part in the vote.

On 29 November, the UN General Assembly approved the resolution giving the Palestinians the status of a UN observer state.

UKRAINE-WTO

Ukraine refuses to call off WTO tariff revision request

On 5 December 2012, acting Ukrainian Prime Minister **Mykola Azarov** said at a cabinet meeting that Ukraine was not going to call off its request to the WTO to revise some tariffs.

Earlier, 23 WTO member states, including the USA, the EU and China, called on Ukraine to cancel its request to revise some import duties. In their opinion, Ukraine targets too many positions, 371, which is outside the framework of the WTO regulations.

UKRAINE-OSCE

Ukraine takes over OSCE chairmanship

On 6 December 2012, Ireland handed the chairmanship of the OSCE over to Ukraine at the 19th meeting of the OSCE Ministerial Council in Dublin.

EU High Representative for Foreign Affairs and Security Policy **Catherine Ashton** said that the EU was looking forward to cooperating with Ukraine during its chairmanship, in particular, as far as the settlement of the Moldova's breakaway Dniester region conflict is concerned.

DOMESTIC POLITICAL

AUTHORITIES

Parliament obliges deputies to vote in person

On 6 December 2012, parliament adopted the law obliging MPs to vote in person. The document bans MPs from impeding the parliament work, in particular by blocking the rostrum, impeding the speaker's work and other MPs' voting.

Personal voting was the main condition the opposition put before the start of the parliament of a new convocation.

It is worth mentioning that personal voting of MPs is stipulated by Ukraine's constitution.

Ukraine's pro-presidential party three mandates short of majority

On 4 December 2012, the leader of the Party of Regions faction, **Oleksandr Yefremov**, said that the number of MPs who filed applications to join the party's parliamentary faction did not change, 223, while 226 MPs are required for a simple majority in parliament.

President nominates acting incumbent for premier

On 9 December, President **Viktor Yanukovich** submitted to parliament the candidacy of **Mykola Azarov** for nominating as prime minister.

On 3 December, Yanukovich accepted the resignation of Azarov and his cabinet. The same day Azarov and some former ministers got registered as MPs.

National Security and Defence Council Secretary **Andriy Klyuyev** and the first deputy head of the presidential administration, **Iryna Akimova**, who were elected to parliament on the list of the Party of Regions, gave up their MP mandates.

Ukrainian parliament of sixth convocation completes its work

On 6 December 2012, MPs of the Ukrainian Verkhovna Rada of the sixth convocation held their last session. It is expected that the first session of the new parliament of the seventh convocation will take place on 12 December.

In the opinion of MPs, among the bills passed by the parliament of the sixth convocation, the law on non-allied status had the most positive consequences for Ukraine, while the ratification of a treaty between Ukraine and the Russian Federation on the stationing of Russia's Black Sea Fleet in Crimea – the so-called Kharkiv agreements – had the most adverse repercussions for Ukraine. This is suggested by the results of a survey carried out by the Gorshenin Institute among lawmakers on 4-6 December. You can find more details on page.13.

Amendments to Ukrainian constitution should be introduced by MPs, European legal authority says

The Venice Commission is against holding a referendum on amending the constitution of Ukraine, which would sidestep the country's parliament, the organization's secretary, **Thomas Markert**, said on 6 December 2012.

On 27 November 2012, Ukrainian President **Viktor Yanukovych** signed a law under which an all-Ukrainian referendum should be held in order to approve amendments to the constitution. The law completely excludes parliament from this process.

Level of corruption on the rise in Ukraine, anti-graft international group says

Ukraine occupies the 144th place out of 176 countries in the most recent corruption rating released by the Berlin-based organization Transparency International.

Out of 100 possible points, Ukraine scored only 26, which is one point less than it received last year. Transparency International's scoring system gives 0 points to countries with rampant corruption, while assigning the maximum of 100 points to countries with absolutely no corruption.

The results of a poll conducted by the Gorshenin Institute in June 2011 suggest that the majority of the Ukrainian population (87 percent) believes that corruption is a common phenomenon in the country.

Ukraine spent nearly 80m dollars on president in 2012 - mass media

Ukraine spent almost 80m dollars for the upkeep of its President **Viktor Yanukovych** in 2012, the Forbes.ua website reported on 4 December 2012, citing the Herald of State Procurement.

Since 2010, when the incumbent president took the office, this amount has reached 178m dollars.

Air defence unit deployed near Ukrainian president's residence

The Ukrainian Defence Ministry has stationed a military air defence unit near the Mezhyhirya official residence of Ukrainian President **Viktor Yanukovych**, which is located near Kiev, the Lb.ua news and analysis website reported on 5 December 2012, citing confirmation which it had received from the ministry in response to its information request.

Ukrainian government to cancel conscription starting from 2014

Ukrainian men will be drafted into the army for the last time in fall 2013, the first deputy head of the General Staff of the Ukrainian Armed Forces, Vice-Admiral **Ihor Kabanenko** said on 7 December 2012.

OPPOSITION

Ukraine's united opposition to elect head of parliamentary faction, approves jailed ex-premier as presidential candidate

It is very likely that **Arseniy Yatsenyuk** will become the head of United Opposition Fatherland's parliamentary faction, the former deputy parliamentary speaker, **Mykola Tomenko**, said on 7 December 2012.

He added that the opposition intended to resolve the issue of its leadership and representation in parliamentary committees on 10 December.

For his part, Yatsenyuk expressed confidence that opposition parties will unite into a single political bloc.

On 7 December 2012, the council of United Opposition Fatherland approved jailed former Prime Minister **Yuliya Tymoshenko** as candidate for the upcoming presidential election.

The opposition believes that Tymoshenko can run for president in 2015 if the European Court of Human Rights (ECHR) declares that her conviction was illegal.

In response, the propresidential Party of Regions said that the ECHR decision in the case of the former prime minister did not necessarily mean that Tymoshenko would be released from prison.

In its turn, the UDAR party led by boxing champion **Vitaliy Klitschko** said that it would nominate a presidential candidate who would have real chances of beating incumbent **Viktor Yanukovich**.

Jailed Ukrainian ex-premier's lawyer expecting European court to render verdict by end of year

The European Court of Human Rights (ECHR) is expected to deliver after 15 December 2012 a verdict on a complaint filed by jailed former Ukrainian Prime Minister **Yuliya Tymoshenko** over the legality of her detention, her lawyer **Serhiy Vlasenko** said on 4 December 2012.

Vlasenko also pointed out that due to procedural issues, the ECHR will not be able to deliver a ruling over Tymoshenko's other complaint concerning the alleged violation of her right to fair trial until the end of the year.

Ukrainian prosecutor's office summons close ally of jailed ex-premier for questioning

Ukrainian law enforcers have made an attempt at Boryspil airport to present an MP of United Opposition Fatherland and a close ally of jailed former Prime Minister **Yuliya Tymoshenko**, **Hryhoriy Nemyrya**, with a summons to the Prosecutor-General's Office, lawyer **Serhiy Vlasenko** said on 7 December 2012.

Ukraine's propresidential party offers opposition 13 parliamentary committees

The Ukrainian propresidential Party of Regions has proposed to set up 27 committees and one controlling commission in the new parliament. The opposition might chair 13

of them, while the other 15 committees might be run by a parliamentary majority, MP of the Party of Regions **Volodymyr Rybak** said on 3 December 2012.

At the same time, the Party of Regions intends to gain control over all the key parliamentary committees.

In the opinion of an MP of United Opposition Fatherland, **Vyacheslav Kyrylenko**, the Party of Regions intends to secure control over the committee for supremacy of law and justice, whose remit is to introduce constitutional amendments and control the implementation of decisions taken by the European Court of Human Rights.

The opposition wants to gain the post of first deputy speaker by planning to nominate for this position the Fatherland party's deputy head **Oleksandr Turchynov**, as well as the chairmanship in the budget committee.

Ukraine's ex-interior minister back to prison after medical examination

On 5 December 2012, the jailed former Ukrainian interior minister, **Yuriy Lutsenko**, was taken back to the Mena penal colony after medical examination which he underwent in the Chernihiv regional hospital.

On 3 December 2012, lawyers of the former minister filed a complaint with the European Court of Human Rights against alleged torture and inhuman treatment of Lutsenko. Earlier, the jailed politician accused prison guards of intentionally withholding from him the required medication, thus reportedly attempting to bring him towards disability.

ECONOMICS

Parliament passes 2013 budget

On 6 December 2012, the Verkhovna Rada of Ukraine passed 2013 state budget.

The budget projects the GDP growth of 3.4 percent and annual inflation rate of 4.8 percent next year. The nominal GDP is expected at 197bn dollars.

The deficit is expected to reach 3.2 percent of GDP (6.3bn dollars). The deficit will be financed with proceeds from privatization (1.36bn dollars) and external borrowings.

The public debt ceiling as of the end of 2013 is set at 60.4bn dollars (at the end of November 2012 the national debt was 49bn dollars).

The average annual exchange rate is projected at UAH 8.3/USD 1, while the year-end rate is expected at UAH 8.4/USD 1.

The price of Russian natural gas in the 2013 budget is established at 421.25 per 1,000 cu.m.

According to the main scientific and expert department of parliament, the real GDP growth forecasted in the budget is overstated.

As news and analysis website LB.ua reported, the budget is based on the optimistic scenario approved by the government. According to the pessimistic scenario, the GDP should grow by 2.5 percent, inflation will reach 6.1 percent, and the nominal GDP should total 163bn dollars.

The opposition says that the budget was submitted by the government after the cabinet's dissolution, which is a violation of the established procedure. Former Speaker **Volodymyr Lytvyn** and acting Prime Minister **Mykola Azarov** have rejected the allegations.

According to former Minister of Finance **Ihor Umansky**, the budgeted rates of economic growth and inflation suggest that the government is expecting zero growth of the real GDP for the next year. The draft budget projects only an inflationary increase in the nominal GDP. He made the statement in an interview for the Dzerkalo Tyzhnya weekly.

IMF postpones visit to Ukraine

The International Monetary Fund (IMF) at the request of the Ukrainian authorities has rescheduled its mission's visit to the second half of January 2013. The Ukrainian authorities have indicated this will allow participation of the new government, following the resignation of former ministers in early December, the IMF Resident Representative Office in Ukraine announced on 6 December 2012.

On 7 December, acting Prime Minister **Mykola Azarov** said that the IMF mission's visit had been postponed at the request of the fund. He later added that he waits for the IMF to change its position in the negotiations with Ukraine. Otherwise, he said Ukraine will do without the IMF loan.

Earlier, the IMF mission planned to visit Kyiv on 7-17 December to start talks on the resumption of its standby programme in Ukraine.

EBRD may cut its financing programme in Ukraine

On 3 December 2012, **Andre Kuusvek**, Director and Country Manager for Ukraine of the European Bank for Reconstruction and Development (EBRD), said that EBRD investments in Ukraine in 2013 may remain at the level of 2012, if Ukraine and the IMF reach agreement on the resumption of the standby programme. If the Ukrainian authorities fail to reach agreement with the IMF, EBRD financing may be considerably reduced.

In 2012 the EBRD planned to invest about 900m euros in Ukraine.

Ukraine's ratings dropping

Moody's Investors Service on 5 December 2012 downgraded Ukraine's government bond rating by one notch to B3 from B2. The outlook remains negative. This is the lowest level in group B (obligations rated B are considered speculative and are subject to high credit risk).

Among the main problems the agency names deterioration in the country's institutional strength against the backdrop of poor policy predictability as well as reduced data transparency, the country's comparatively weak economic outlook over the short and medium term (overall, Moody's expects the real GDP growth to slow to 0.5 percent in 2012, and grow at 1.5 percent in 2013).

On 7 December, Standard & Poor's Ratings Services lowered its long-term foreign- and local-currency sovereign credit ratings on Ukraine to B from B+. The outlook remains negative.

Ukraine's budget revenues fulfilled only by 82 percent

Revenues of the state budget in January-November 2012 amounted to 38.2bn dollars, which is less than 82 percent of the full year target (46.78bn dollars), the State Treasury announced on 4 December.

Thus, the government has to collect nearly 8.6bn dollars in December, despite the fact that in November the budget received a little more than 3.75bn dollars, according to news and analysis website LB.ua.

Foreign currency reserves continue to decline

In November 2012, the international reserves of Ukraine decreased by 5.5 percent from 26.816bn dollars to 25.355bn dollars billion, according to preliminary data of the National Bank of Ukraine.

In January-November 2012, the foreign currency reserves fell by 20.3 percent from 31.794bn dollars to 25.355bn dollars.

Government to sell public banks

The government has set up a commission for the sale of shares in the banks recapitalized in 2009, namely Bank Kiev, Rodovid and UkrGazBank. The corresponding decree was adopted on 14 November 2012. The committee will be headed by the minister of finance.

Grain traders export maximum amount of wheat

As of 3 December 2012, Ukrainian grain traders exported from Ukraine the maximum allowable amount of wheat – 5.5m tonnes, the Ministry of Agricultural Policy reported. According to Agricultural Policy Minister **Mykola Prysyzhnyuk**, the total size of exports will reach approximately 5.6-5.7m tonnes.

Ukraine gets green light to export eggs and poultry to Europe

On 4 December 2012, the European Commission gave permission to Ukraine to supply eggs and poultry to the EU countries. Ukraine was officially put on the list of countries that have the right to export poultry products to the European Union.

Relevant amendments will be introduced to the regulations of the European Commission within two to three months, after the document is translated into official languages of the EU member states.

Two largest ferroalloy plants halt production

On 1 December 2012, the two largest producers of ferroalloys, Zaporizhzhya Ferroalloy Plant and Stakhanov Ferroalloy Plant, which are controlled by Privat Group owned by Ukrainian businessman **Ihor Kolomoyskyy**, stopped production. According to the management of the plants, the reason behind the shutdown is high energy costs for the businesses. The production halt may lead to layoff of several thousands of employees.

ENERGY MARKET**Cabinet launches probe into LNG terminal deal controversy**

On 5 December 2012, the cabinet formed a commission to investigate the signing of an agreement to build an LNG terminal. The commission is expected to make its report public on 10 December.

On 26 November, the Ukrainian cabinet signed an agreement on cooperation with the Spanish company Gas Natural to build an LNG terminal. Gas Natural was supposed to head the consortium of construction investors. The person who signed the agreement on behalf of Gas Natural, **Jordi Sarda Bonvehi**, turned out to be not a representative of the company and was not authorized for signing the agreement.

Ukraine to pay over 1bn dollars for two drilling rigs

On 3 December 2012, the national oil and gas company Naftohaz Ukrayiny signed an agreement with Keppel FELS Limited (Singapore) to buy two offshore drilling rigs.

The budget of the deal is 1.22bn dollars.

On 4-6 December 2012, the Gorshenin Institute conducted a poll among Ukrainian MPs of the sixth convocation. The sample size was developed with the consideration given to the quantitative constitution of the Ukrainian Verkhovna Rada. As many as 147 lawmakers took part in the poll. The survey relied on the method of interviews by a questionnaire. The margin of error of the survey does not exceed 6.6 percent:

1. Using a five-point scale, give a general evaluation of the activity of MPs of the Verkhovna Rada of the sixth convocation.

- Excellent – 20.0 percent
- Good – 21.7 percent
- Satisfactory – 31.7 percent
- Bad – 20.0 percent
- Very bad – 6.6 percent

2. How do you evaluate a decision of the Constitutional Court which cancelled political reform and reinstated presidential powers?

- Definitely positively – 11.7 percent
- Probably positively – 13.3 percent
- Probably negatively – 13.3 percent
- Definitely negatively – 55.0 percent
- No answer – 6.7 percent

3. Which laws passed by the Verkhovna Rada of the sixth convocation had the most positive consequences for Ukraine? (no more than three answer choices can be selected)

- The law of Ukraine “On the principles of domestic and foreign policy” (non-bloc status) – 25.0 percent
- The law of Ukraine “On electing Ukrainian MPs” – 6.7 percent
- The law of Ukraine “On ratifying the agreement on a free trade area” (a free trade area with the Commonwealth of Independent States) – 5.0 percent
- The Criminal Procedures Code of Ukraine – 5.0 percent
- The Customs Code of Ukraine – 3.3 percent
- The law of Ukraine “On holding all-Ukrainian referendums” – 1.7 percent
- The Tax Code of Ukraine – 1.7 percent
- The agreement between Ukraine and the Russian Federation on the stationing of Russia's Black Sea Fleet in Crimea (the Kharkiv agreement) – 0.3 percent
- The law of Ukraine “On the provision of pensions” (pension reform) – 0.3 percent
- The law of Ukraine “On the judicial system and the status of judges” (judicial reform) – 0.3 percent
- The law of Ukraine “On the principles of state language policy” – 0.1 percent
- None of the mentioned documents – 41.7 percent
- Other – 3.3 percent
- No answer – 6.7 percent

4. Which laws passed by the Verkhovna Rada of the sixth convocation had the most adverse consequences for Ukraine? (no more than three answer choices can be selected)

- The agreement between Ukraine and the Russian Federation on the stationing of Russia's Black Sea Fleet in Crimea (the Kharkiv agreement) – 35.0 percent
- The law of Ukraine “On the principles of state language policy” – 16.7 percent
- The law of Ukraine “On electing Ukrainian MPs” – 13.3 percent
- The law of Ukraine “On the provision of pensions” (pension reform) – 8.3 percent
- The law of Ukraine “On the principles of domestic and foreign policy” (non-bloc status) – 6.7 percent
- The law of Ukraine “On the judicial system and the status of judges” (judicial reform) – 1.7 percent
- The law of Ukraine “On holding all-Ukrainian referendums” – 1.7 percent
- The Tax Code of Ukraine – 1.7 percent
- The law of Ukraine “On ratifying the agreement on a free trade area” (a free trade area with the Commonwealth of Independent States) – 0.3 percent
- The Customs Code of Ukraine – 0.3 percent
- The Criminal Procedures Code of Ukraine – 0.3 percent
- None of the mentioned documents – 5.0 percent
- Other – 1.3 percent
- No answer – 10.0 percent

5. Should lawmakers of the next, seventh convocation of the Verkhovna Rada cancel immunity for MPs?

- Definitely yes – 30.0 percent
- Probably yes – 21.7 percent
- Probably no – 25.0 percent
- Definitely no – 20.0 percent
- No answer – 3.3 percent

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