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Next round of gas negotiations to be held on 17 January 2012

The next round of the gas talks between Ukrainian Energy and Coal Industry Minister Yuriy Boyko and Gazprom's CEO Aleksey Miller will be held in Moscow on 17 January. The Ukrainian news and analysis website Lb.ua quoted Miller as telling Russian Prime Minister **Vladimir Putin** on 10 January 2012 that in the process of the negotiations, the Ukrainian party was linking a gas price discount to the setting up of a gas transportation consortium between the two countries. According to Miller, if Ukraine purchases 40bn cu.m. of gas, the discount will be 9bn dollars annually. At the same time, the Gazprom CEO said that the Ukrainian gas transportation system is worth 20bn dollars.

For his part, Ukrainian Energy Minister Boyko said that Ukraine did not intend to sell its gas transportation system to Russia in exchange for a gas price reduction. He added that an evaluation of the Ukrainian gas transportation system had not been conducted yet.

It is well known that in the near future the Supreme Council of Ukraine (Parliament) might adopt a draft law which will entitle the government to reform the gas transportation system.

Furthermore, Boyko said that Ukraine intended to reduce by half the amount of gas it purchases from Russia in 2012. "Starting from 1 January [2012], we will buy approximately 27bn cu.m.," the minister noted.

Boyko explained that such a reduction in the amount of consumed gas will be achieved through a general decrease in Ukrainian gas consumption, an increase in domestic gas extraction and by switching Ukrainian electric power stations to coal. Additionally, he pointed out that Ukraine and Turkey had launched negotiations on gas deliveries via a new route.

In its turn, Gazprom insists that the annual contract amount of gas for Ukraine in 2012 is 52bn cu.m. and the take or pay amount is 41.6bn cu.m. The Russian energy monopolist added that Ukraine had missed an opportunity to re-negotiate the 2012 volume of gas deliveries. The Ukrainian state-run oil and gas trader Naftohaz Ukrayiny said the opposite; that it had informed Russia about the desire to revise the amount of gas for purchase back in May 2011.

Writing for the Ukrainian analytical weekly Zerkalo Nedeli (Weekly Mirror), Alla Yeremenko expressed the opinion that the amount of gas voiced by Boyko was not unreasonable. "If we proceed from the fact that an addendum to the purchase-sale contract (of which Boyko is likely to be aware of but Ukrainian citizens are not) on a reduction of 20 percent in gas deliveries was agreed by the parties and signed last year, then there is up to 41bn cu.m. and almost 6bn cu.m. which can be 'written off' on **Dmytro Firtash's** Ostchem Holding (instead of Hazpromzbut Ukrayiny, as envisioned by the contract), then deduct around 20 percent, then one can attain at a push the Gazprom gas volume of import at 27bn cu.m. in 2012 which was declared by Boyko. Firtash failed to strike a deal on cheap gas with Turkmenistan, while his chemical plants and the regional and city gas agencies controlled by his group need gas. Where is he going to get it? From whose annual quota of gas deliveries? Obviously, from that of Naftohaz Ukrayiny..."

It is well known that Ostchem Holding imported approximately 5.53bn of gas from Asia in 2011. It purchased it more cheaply than Naftohaz Ukrayiny. This gas was delivered to a number of big chemical companies controlled by Firtash.

It is worth noting that according to Ukrainian President **Viktor Yanukovich**, the country is experiencing a deficit of approximately 500m dollars on a monthly basis in order to pay for purchased gas.

The director of the Institute of Political Analysis and International Research, **Serhiy Tolstov**, believes that Ukraine will be forced to transfer its gas transportation system into joint ownership with Gazpom.

Experts of the Gorshenin Institute have pointed out on multiple occasions in their assessments and comments that Ukraine and Russia have no conflicts when it comes to the gas issue. There is only a mock conflict taking place which is intended to transfer the Ukrainian gas transportation system to Russia, they added.

Ukraine, Azerbaijan strengthen cooperation in gas sphere

Ukraine and Azerbaijan plan signing a number of cooperation agreements in the sphere of gas in near future.

The head of the State Agency of Ukraine for Investments and Management National Projects, **Vladyslav Kaskiv**, said that at the World Economic Forum in Davos on 25-26 January 2012 Ukraine and Azerbaijan plan to sign an agreement on setting up a joint venture to supply liquefied gas to Ukraine.

Kaskiv added that according to this agreement, it is planned to supply 2bn m.cu. of liquefied gas to Ukraine in 2014 and another 5bn m.cu. in 2015.

A reminder that the development of the Feasibility Study is now ongoing to build a regasification terminal to receive liquefied natural gas (LNG-terminal) in Ukraine.

Ukrainian government's envoy: agreement on free trade area with CIS to be submitted to Parliament in near future

An agreement on setting up a free trade area with the CIS might be submitted to Parliament for ratification in the near future.

The envoy of the Ukrainian government for cooperation with Russia and the CIS states, **Valeriy Muntiyan**, said that after the Ukrainian Economy Ministry, the agreement was approved by the Foreign Ministry and was being considered by the Presidential Administration at the moment. "In the near future, he [President Yanukovich] will send this law for ratification by the [Supreme] Council," Muntiyan noted. He believes that any trade wars between Ukraine and Russia are impossible once the law has come into force.

It is noteworthy that the editor-in-chief of the Ukrainian news and analysis website Lb.ua, **Sonya Koshkina**, wrote that the Ukrainian government linked the issue of ratifying the free trade agreement with the CIS to gas negotiations with Russia. In particular, in exchange for the document ratification, the Ukrainian authorities are counting on a gas price of 250-315 dollars for 1,000 cu.m., as opposed to the current price of 415 dollars. Russia is believed to be willing to agree to this deal. However, President Yanukovich is not ready for the ratification due to certain provisions laid out in the law. "The text of the document contains the most interesting novel. If a participant country sets up a free trade area with any other state (with the EU, for example), other member states might impose any (!) duties on any (!) groups of products. Think about it: [they can impose duties] not on a single group of products but on any groups of products! In fact, the matter has to do with a threat of the harshest blackmailing by means of economic sanctions. To put it simply, if an agreement on a free trade area is signed with the CIS, Ukraine cannot expect a free trade area with the EU," Koshkina opined in an article.

It is well known that on 11 January 2012, the ruling parliamentary coalition refused to support a proposal put forward by the opposition to listen to Ukrainian Prime

Minister **Mykola Azarov's** report on the agreement on setting up a free trade area with the CIS, which was signed on 18 October 2011. Members of the opposition proposed to listen to a report on the terms, premises and forecasted ramifications of the document and its ratification. They demanded that the government publicize the law and its addenda.

Yuliya Tymoshenko transferred to prison in Kharkiv Region

The leader of the opposition Fatherland party and former Ukrainian prime minister, Yuliya Tymoshenko, was transferred from Kiev's Lukyanivske detention center to a prison in Kharkiv Region on 30 December 2011.

Tymoshenko had been kept in the detention center since the beginning of August 2011.

It is well known that on 11 October 2011, she was convicted on charges of abuse of power when she signed the gas contracts with Russia in 2009 and on charges of inflicting multimillion losses on the state budget. She was sentenced to seven years in prison and to a fine worth 189m dollars.

It is worth noting that the former prime minister's family does not intend to reimburse Naftohaz Ukrayiny for the losses which a court ruled that Tymoshenko needs to cover.

For her part, Tymoshenko says that the contract which she signed back in 2009 envisions a possibility of re-negotiating the price of purchased gas without any punitive sanctions.

Former prime minister's husband granted political asylum in Europe

On 6 January 2012, the Czech Republic granted political asylum to the husband of former Ukrainian Prime Minister Yuliya Tymoshenko, Oleksandr Tymoshenko.

At the same time, the Czech Foreign Ministry expressed hope that the political asylum granted to Tymoshenko's husband would not damage relations between the two countries.

Later, the Czech embassy in Ukraine clarified that the Czech Republic does not grant "political asylum" but under its international obligations it grants refugees international protection, including in the form of "asylum."

The Ukrainian Foreign Ministry stated that the granting of the status of a refugee to Tymoshenko's husband by the Czech Republic had no political implications and that it recognized no grounds for Ukrainian citizens to seek asylum abroad.

For his part, Oleksandr Tymoshenko explained that he was forced to leave Ukraine and seek political asylum due to incredible pressure and persecution by the Ukrainian government. "I do not want to give [President] **Viktor Yanukovich** any additional opportunity to pressure the opposition leader. Asylum is the only means by which I can accomplish this," he added.

The Ukrainian mass media reported that Oleksandr Tymoshenko has a business in the Czech Republic and owns there a lot of property. However, he denied this information.

Oleksandr Tymoshenko intends to set up an international organization called Fatherland in the Czech Republic. It will monitor the rights and freedoms of Ukrainian citizens as well as the adherence to democratic principles in Ukraine.

The former Czech ambassador to Ukraine, **Pavel Masha**, believes that the granting of political asylum to Tymoshenko's husband might have negative consequences for Czech business in Ukraine.

Ukrainian presidential advisor **Hanna Herman** indirectly confirmed this opinion. In particular, in an interview on Ukrainian TV, she stressed the importance of understanding by the Czech Republic its responsibility for the comfort with which Czech companies will operate in Ukraine. "They [representatives of the Czech business in Ukraine] also need to understand that much depends here on the Czech government. If the Czech authorities take such overtly unfriendly steps, then, of course, you understand that there are certain laws and certain traditions in intergovernmental cooperation," the presidential advisor explained.

It is well known that the Czech Republic granted political asylum to former Economy Minister **Bohdan Danylyshyn** in January 2011.

It is noteworthy that the former prime minister's daughter, **Yevheniya Tymoshenko**, has recently sold her restaurant in Kiev. A number of Ukrainian mass media outlets believe that Yevheniya might leave Ukraine, like her father did, in the near future.

**Criminal case
launched against
another Ukrainian
opposition member**

On 11 January 2012, a prosecutor's office opened a criminal case against the former Kharkiv Region governor, Arsen Avakov.

More specifically, the criminal case was launched over the alleged illegal privatization of state-owned land in 2009 by means of abuse of power, which inflicted grave consequences.

It is well known that from February 2005 to February 2010, Avakov served as the head of Kharkiv regional state administration. In April 2010, he became the head of the Kharkiv regional organization of the opposition Fatherland party.

Avakov believes that the charges pressed against him are trumped up. According to him, this is how the Ukrainian authorities use law-enforcement agencies to "persecute inconvenient" opponents.

The Fatherland party also believes that the criminal case opened against Avakov is politically motivated.

The *Kommentarii* (Comments) newspaper wrote that the launching of the criminal case against Avakov is linked to former Prime Minister **Yuliya Tymoshenko's** transfer to a Kharkiv prison. Given the financial possibilities of the former governor who is a successful businessman and his popularity, the opposition could stage more frequent mass demonstrations in the first capital of Ukraine to support Tymoshenko. Furthermore, Avakov could substantially improve his popularity rating as a result of the heightened mass media attention to Kharkiv and Tymoshenko. Avakov was short by less than one percent to beat pro-government candidate **Hennadiy Kernes** in the Kharkiv governor election in 2010, the newspaper added.

A number of mass media outlets circulated the information that Avakov is abroad at the moment. At the same time, he said that he intended to participate in the upcoming election to the Supreme Council of Ukraine in fall 2012.

Russia threatening sanctions over Ukraine's switching to European food and nutrition control standards

The Russian Sanitary Service is mulling imposing restrictions on imports of agricultural products from Ukraine.

Also, the Sanitary Service plans to start restructuring the coming summer holiday period for Russian children and refuse to send them to Ukrainian resorts.

According to Chief State Sanitary Doctor of Russia **Gennadiy Onishchenko**, Russia may undertake such steps due to the fact that "Ukraine has transferred the authorities for controlling quality of food and nutrition, particularly in organized groups of children, to the veterinary services."

At the same time, he explains that Ukrainian veterinarians do not have the appropriate skills and abilities to perform the new functions.

In response, Deputy Head of the Parliamentary Health Committee, MP of the Party of Regions **Viktor Korzh**, called the statement by Russia's chief sanitary doctor a provocation "lacking any supporting points." According to him, the Veterinary Service has been delegated the new authorities by the example of the EU member states, and this structure will be able to control food quality and safety throughout the entire territory of Ukraine.

In the opinion of Ukrainian Foreign Minister **Kostiantyn Gryshchenko**, Onishchenko should apologize for his statement.

It should be noted that already on January 12, 2012, Onishchenko said that the Russian Sanitary Service discovered an excessive amount of palm oil in the cheese supplied to Russia by a number of Ukrainian producers. In turn, the National Union of Milk Producers of Russia suggested suspending imports of cheese from Ukraine because its quality does not meet the requirements established by Russian legislation.

Budget for 2012 to undergo revisions soon

President Yanukovich demands reallocation of funds in the state budget for 2012.

In particular, the president said that the funds foreseen in the main financial document for 2012 had been allocated disproportionately.

Yanukovich instructed the government to reconsider in January the allocation of the funds for regional development foreseen in the 2012 state budget.

It should be noted that the president signed the 2012 state budget bill into law on December 28, 2011.

The president also vetoed the Law "On State Program of Economic and Social Development of Ukraine in 2012 and Main Directions of Development for 2013 and 2014."

According to Senior Economist at investment firm Dragon Capital Elena Belan, an 8 billion dollar "hole" may appear in the national budget if Ukraine does not resume cooperation with the International Monetary Fund and does not get a price reduction for Russian natural gas. Such a "hole" can be covered only at the expense of foreign exchange reserves of the National Bank of Ukraine (NBU), which may lead to the hryvnia losing its value.

Ukraine ranks 163rd out of 179 countries in economic freedom ranking

Ukraine has been included in the lowest category in the ranking of free economies.

Particularly, Ukraine occupied 163rd place among 179 countries in the rating compiled by the Heritage Foundation, a U.S. research and educational institution, thus showing the worst result among European countries. Along with Belarus and such countries as North Korea, Zimbabwe, Sierra Leone, Ukraine was included in the category of "repressed" economies.

The authors of the ranking believe that the foundations of economic freedom are fragile in Ukraine and unevenly established across the country. "Poor protection of property rights and widespread corruption discourage entrepreneurial activity, severely undermining prospects for long-term economic expansion. The rule of law is weak, and the judicial system remains susceptible to substantial political interference," the report says.

Parliament to look at land market law at next session

Ukrainian Parliament to consider the law on the land market as early as the next session.

"We do not see any need to approve it (the law on the land market) this week... in three weeks from now, when the next parliamentary session starts, we will have all the opportunities to do that and there will no be complains against the document", the Party of Regions parliamentary faction leader, **Oleksandr Yefremov**, said on 12 January 2012.

As you know, the parliamentary committee on agricultural policy informed the parliamentary speaker on completion of processing proposals to the draft law on 11 January 2012. Now the draft law is being considered by the Ukrainian Parliament's legal directorate.

A reminder that the law on land market was approved in the first reading on 9 December 2011.

Experts say government fails to comply with grain export plan this marketing year. Government prepares to limit grain export

The Ukrainian Agrarian Confederation forecasts grain export 22-22.5m tones this marketing year (July 2011 - June 2012)

In particular, the Ukrainian Agrarian Confederation forecasts that if demand for Ukrainian grain on the international markets remains at the current level, grain export in January-June 2012 will be around 12.5-13m tones, out of them: wheat - 2-2.5m tones, corn - 10m tones, barley -0.5m tones.

It is worth mentioning that due to adverse weather conditions causing failure of a significant part of fall-seeded crops, the government does not rule out imposing limitations on grain export.

"We have to think about the fall-seeded crops harvest we are going to have, as these crops constitute the main part of the harvest of food wheat... We shall not leave our country without domestically harvested grain", - Prime Minister **Mykola Azarov** said on 29 December 2011.

Ukrainian President submits new Criminal Proceedings Code for Parliament's consideration

President Viktor Yanukovich submits the new revision of the Criminal Proceedings Code to Parliament for priority review.

According to the head of the main directorate for administration of courts at the Ukrainian President's Administration, **Andriy Portnov**, Parliament will approve the new revision of the Criminal Proceedings Code in February 2012.

Portnov also said that 95-98% of comments made by European experts have been

addressed in the new draft of the document.

The new revision of the Criminal Proceedings Code provides a possibility for home arrest. For the implementation of this provision, electronic means of control will be used. Moreover, the draft code provides a new approach to the application of the pledge (bail) mechanism. The document also suggests the institution of trial by jury in Ukraine.

**President vetoes new
Customs Code****President Viktor Yanukovich vetoed Customs Code that Parliament approved on 3 November 2011 and suggested his comments to improve the document.**

In particular, Yanukovich suggested that the new Customs Code should take effect from 1 January 2013 rather than 1 January 2012. Yanukovich said that the draft Customs Code can not be signed as it violates constitutional rights for business activity, poses risks of tax evasion, violates citizens rights and contradicts international obligations that Ukraine has assumed.

**President changes
structure, expands
powers of Security
Service****President Viktor Yanukovich approved changes to the structure of the Security Service of Ukraine on 3 January 2012.**

According to the approved changes, the list of functional divisions of the Ukrainian Security Service's (SBU) main directorate and subordinate bodies has been extended to include the department of counterintelligence protection of state interests in the sphere of information security.

According to President Yanukovich, the new unit shall help to solve tasks on protecting the legal interests of the country and citizens in the sphere of information security.

Later, on 6 January 2012, Yanukovich signed the law extending SBU's powers to include investigation of crimes under the article "public disorder".

**Ukraine's richest man
buying up national
power generation****The DTEK Holding, which belongs to Ukrainian businessman Rinat Akhmetov, is buying up state-owned shareholdings in Ukrainian power generation companies.**

According to the State Property Fund (SPF), DTEK won the auction for the sale of a 40% state-owned stake in Donetskoblenenergo which supplies electricity in Donetsk Region. The final price of the shareholding amounted to 58.7 million dollars. According to mass media reports, after the auction, DTEK's share in the company will total around 70%.

In addition, DTEK was the only bidder in the auction for the sale of a 25% government-owned stake in Dniproenergo (Zaporizhia), a major power-generating company. At present, the government is holding a competition to select an appraiser of the stake. The DTEK is ready to buy the mentioned shareholding for 147.3 million dollars.

The SPF also reported that the DTEK Holding is planning to purchase a 45.103% government stake in the power-generating company Zakhidenergo for 242.4 million dollars. According to mass media reports, the acquisition will bring DTEK's shareholding in the company to over 70%.

It should be noted that there are only six companies operating thermal power plants in Ukraine, particularly Zakhidenergo, Dniproenergo, Kyivenergo, Skhidenergo, Donbasenergo and Tsentrenergo.

Officially, the first four companies are already controlled by Rinat Akhmetov, and the last two by the NJS Energy Company of Ukraine.

In October 2011, the DTEK draw in about 1 billion dollars in loans, mainly from Russian banks.

It worth mentioning that, according to experts and mass media, Rinat Akhmetov has very close ties with President Viktor Yanukovych.

**Ukrainian police
detain surgeon
without education
who has been
conducting brain
surgeries**

Ukraine has launched an investigation into the case of a man who claimed to be a physician, Andriy Slyusarchuk.

He was detained in November 2011. The Ukrainian prosecutor's office launched two criminal cases against him: over forged documents and fraud.

It is noteworthy that a number of journalistic investigations revealed that Slyusarchuk, who has no required educational credentials, had been practicing medicine for many years. Furthermore, he had been conducting brain surgery. Additionally, Slyusarchuk carried out experiments on people using various psychotropic medications. Journalists discovered a number of fatal cases among his patients. It was also established that Slyusarchuk attracted the attention of law-enforcement agencies on several occasions. However, thanks to his "high-ranked patrons and connections," he escaped responsibility.

For his part, Slyusarchuk denies all the accusations, claiming that he is a certified specialist who has earned degrees in Russia and Ukraine. It is worth noting that the Ukrainian Education Ministry confirms that his diploma is real. At the same time, the facts of the journalistic investigations suggest the opposite. An investigation into the case is currently under way.

It is worth mentioning that Slyusarchuk received a state award for "scientific accomplishments in the educational sphere" in 2011.

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