



# Gorshenin *Weekly*

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## PARLIAMENTARY ELECTION

### **Ukraine's top election body finishes vote count, says re-election in number of constituencies possible**

On 8 November 2012, the Ukrainian Central Electoral Commission (CEC) concluded the processing of 100 percent of official vote count reports in the national multiple-seat constituency in the 28 October parliamentary election. According to the obtained results, the pro-presidential Party of Regions garnered 30 percent of the popular vote, United Opposition Fatherland - 25.54 percent, boxing champion **Vitaliy Klitschko's** party UDAR – 13.96 percent, the Communist Party of Ukraine – 13.18 percent and the far-right all-Ukrainian Freedom association – 10.44 percent.

The issue of re-elections in a number of «problematic» first-past-the-post constituencies is under discussion at the moment.

On 5 November, the CEC passed a resolution on the impossibility of determining the voting results and on the need of holding a re-election in five single-seat constituencies. The agency also stressed that parliament should introduce amendments to the law on electing MPs which would lay out legal grounds for re-elections since the current draft did not foresee this possibility.

The CEC deputy head, **Andriy Mahera**, said that re-elections in problematic constituencies will be held no earlier than March 2013.

United Opposition Fatherland refused to recognize the results of the election and intends to demand through the European Court of Human Rights that fair results be established in five single-seat constituencies.

For his part, Ukrainian Prime Minister **Mykola Azarov** accused the united opposition of pressuring electoral commissions in a number of districts during the vote count process.

On 9 November, Ukrainian President **Viktor Yanukovych** said that a re-election would be held in five constituencies.

Earlier, Polish President **Bronislaw Komorowski** said that he urged his Ukrainian counterpart to assist with a re-election in problematic first-past-the-post constituencies.

Jailed former Ukrainian Prime Minister **Yuliya Tymoshenko** is against a re-election. In her opinion, opposition candidates have won in all the problematic districts, which can be confirmed by the original copies of vote count reports of electoral commissions which the opposition has in its disposal.

On 9 November, the head of United Opposition Fatherland's council, **Arseniy Yatsenyuk**, said that his political force started negotiations with the UDAR and Freedom parties about withdrawing party lists and demanding a re-election.

**EU postpones summit, association deal talks with Ukraine until 2013, waiting for country's election results**

A Ukraine-EU summit and the signing of an association agreement might be postponed due to the worsening image of the Ukrainian government, the press secretary of the EU high representative for foreign affairs and security policy, **Maja Kocijancic**, said on 6 November 2012.

She explained that the EU would like to «see the conclusion of the parliamentary election before it starts to prepare for the next summit».

**Kocijancic** also noted that the issue of future EU-Ukrainian relations will be discussed at a meeting of the EU Council on Foreign Relations on 19 November.

The head of the EU observation mission to the Ukrainian parliamentary election, **Pawel Kowal**, said that the most recent parliamentary election in Ukraine was better than in other post-Soviet countries, but worse than before.

On 5 November, a mission of the European Network of Election Monitoring Organizations (ENEMO) published a report in which it questioned the transparency of the vote count process and the results of the Ukrainian parliamentary election, especially in single-seat constituencies.

The EUobserver website reported quoting a source from the EU diplomatic circles that at the moment nobody in the EU wants to see Ukrainian President **Viktor Yanukovych** «shaking hands with VIPs in Brussels so soon after the elections».

«It would be seen as EU approbation of his authority despite the poor conduct of the parliamentary vote,» the website said.

In the opinion of the Freedom House president, **David Kramer**, Yanukovych is not interested in the signing of the association agreement with the EU. He said this in an interview with the Ukrayinsky Tyzhden magazine on 7 November. Furthermore, Kramer added that Freedom House and the Organization for Security and Cooperation in Europe (OSCE) would demand that personal sanctions be imposed on Ukrainian officials.

«We have reached the stage when the only way of somehow changing the situation is to apply punishment,» he said, adding that «carrots do not work». «Of course, measures will not be adopted right away, but discussions will become more serious,» Kramer clarified.

**PACE points to democracy slide in Ukraine after parliamentary polls**

The situation in Ukraine after the 28 October parliamentary election shows that democracy is on the decline, the president of the Parliamentary Assembly of the Council of Europe (PACE), **Jean-Claude Mignon**, was quoted by the Ukrainian mass media on 9 November 2012 as telling The New Europe magazine.

In his opinion, news coming from Ukraine after the election, which brought the victory to the pro-presidential Party of Regions, reveals that problems persist in the country.

**Ukrainian parliament sets up commission to probe election rigging**

On 6 November 2012, the Ukrainian parliament adopted a resolution on setting up an ad hoc commission for investigating the circumstances of vote count at some first-past-the-post constituencies.

The commission will present the results of its investigation by 9 November. However, an MP of the pro-presidential Party of Regions, **Volodymyr Oliynyk**, said that the final results of the commission's probe would be known no sooner than in a month.

In addition to the setting up of the ad hoc commission, the opposition also proposed that those who violate electoral legislation be imprisoned for up to six years, although parliamentary speaker **Volodymyr Lytvyn** dismissed this initiative.

**INTERNATIONAL POLITICAL****UKRAINE-RUSSIA****Russia once again unveils conditions for reducing gas price for Ukraine**

The gas price for Ukraine will be reduced to Russia's domestic market level if Ukraine joins the Customs Union of Russia, Belarus and Kazakhstan, a representative of the Russian Foreign Ministry, **Mikhail Yevdokimov**, said on 9 November 2012.

«Export duties have been cancelled within the Customs Union. Consequently, the gas price with nuances for oil products for the member states of the Customs Union is way lower. This is not some kind of a special discount for Ukraine. This is an objective fact of membership in the Customs Union,» he added.

Earlier, Ukrainian Prime Minister **Mykola Azarov** said that if Kiev joins the Customs Union, it will be able to purchase Russian gas for 160 dollars per 1,000 cu.m. At the moment, the gas price for Ukraine is 432 dollars per 1,000 cu.m.

On 8 November 2012, Russia's gas giant Gazprom said once again that it intended to reconsider the gas price for Ukraine.

**Ukrainian president to visit Russia in nearest future**

Kiev and Moscow are preparing for a visit of Ukrainian President **Viktor Yanukovych** to Russia, the Russian deputy foreign minister, **Grigoriy Karasin**, said on 7 November 2012.

The last time Yanukovych went to Russia with a working visit was on 22 October.

**Ukraine, Russia start border demarcation**

On 7 November 2012, the first border sign was installed on the Chernihiv-Bryansk segment of the Ukrainian-Russian state border as a part of a field phase of the demarcation process.

An agreement on the demarcation of the Ukrainian-Russian border was signed on 17 May 2010.

### **Talks on upgrading Russia's Black Sea Fleet might conclude by end of 2012**

Ukraine plans to conclude the negotiations on the upgrading and stationing of the Russian Black Sea Fleet in Crimea by the end of 2012, the Ukrainian first deputy defence minister, **Oleksandr Oliynyk**, said on 7 November.

At the same time, Oliynyk expressed confidence that the majority of the upgrading would be done by Ukrainian companies.

### **UKRAINE-USA**

#### **After Obama's re-election, USA not to change policy towards Ukraine, envoy says**

Washington's policy towards Kiev will not change after the presidential election in the USA, American ambassador to Ukraine **John Tefft** said on 7 November 2012.

President **Barack Obama** won the second term in the 6 November election.

In the opinion of the Ukrainian Foreign Ministry's ambassador at large, **Oleksandr Shcherba**, the US policy towards Ukraine would not change even if the candidate from the Republican Party, **Mitt Romney**, had won the election. This is shown by the fact that «not only Ukraine never featured during this presidential election [in the USA], but it was not mentioned either», he explained.

The deputy director-general of the Razumkov Center, **Valeriy Chalyy**, said in an exclusive interview with the Lb.ua news and analysis website that Ukraine was not currently even in the top 20 priority countries for cooperation with the USA.

### **UKRAINE-CYPRUS**

#### **Ukraine, Cyprus agree to abolish tax privileges**

Ukraine and Cyprus have signed a convention on the avoidance of double taxation and the prevention of income tax evasion. The convention was signed in the presence of two presidents **Viktor Yanukovych** and **Dimitris Christofias** on 8 November 2012.

In particular, the new agreement allows Ukraine to collect taxes from the companies registered in Cyprus in accordance with the Ukrainian legislation. After the convention comes into force, the state budget of Ukraine should receive more revenues, while uncontrolled outflow of Ukrainian capital to Cyprus should stop.

As news and analysis websites Lb.ua reported, citing data from Tax Justice Network, that during the years of Ukraine's independence, about 167bn dollars was brought from the country to offshore zones.

Yanukovych paid a two-day visit to Cyprus on 8-9 November.

**DOMESTIC POLITICAL****AUTHORITIES****Ukrainian parliament allows constitution amendments via referendum**

On 6 November 2012, the Ukrainian parliament adopted the law «On all-Ukrainian referendum». The document envisions that a referendum can be held for approving a new draft of the constitution, amending it, rescinding or declaring the existing law on the introduction of amendments to the constitution void. Additionally, a referendum can be held on the issue of changing the territory of Ukraine.

At the moment, the constitution can only be amended by parliament and only when a constitutional majority (two thirds of MPs – 300 votes and more) votes in favor of proposed amendments.

United Opposition Fatherland harshly criticized the new law and demanded that it be rescinded. The deputy parliamentary speaker and the Yuliya Tymoshenko Bloc opposition parliamentary faction MP, **Mykola Tomenko**, said that if this demand is not satisfied, his political force will challenge the document in the Constitutional Court. The politician stressed that a cancellation of a presidential election and the transfer of the function of electing the head of state to parliament would be a consequence of adopting the law.

In its turn, the pro-presidential Party of Regions said that the document was in line with the 2011 recommendations on national legislation and referenda provided by the Venice Commission. The head of the Party of Regions parliamentary faction, **Oleksandr Yefremov**, said that President **Viktor Yanukovich** supported the adoption of this law.

At the same time, responding to the accusation of the opposition that this law was adopted with a violation of the standard procedure, Yefremov explained that this step (the passing of the law in the second reading using the text of a draft adopted in the first reading, which constitutes a violation) was taken because «many lawmakers were dealing with their own issues before the election».

The draft law was last considered by parliament on 10 July 2010, following which it was sent for a second reading since some of its norms were not in line with the constitution. Until the moment of the law's consideration in parliament, a parliamentary committee did not discuss it and did not propose to consider it in the repeated second reading.

In an article for the Ukrainian analytical weekly *Dzerkalo Tyzhnya* of 9 November, **Ihor Kolyushko and Yuliya Kyrychenko** wrote that only the constitution regulates the terms of amending the constitution. The adoption of a law on the terms of amending the constitution contradicted the principles of a legal state, they believe. The authors pointed out that under the adopted law, parliament and the Constitutional Court were excluded from the process of amending the constitution.

Yet, another power agency was introduced – the president, who will put the final draft of the amended constitution to a referendum. Additionally, political parties are not recognized as participants in an all-Ukrainian referendum. Furthermore, the law does not foresee their participation in the process of setting up commissions for a referendum, also stripping them of the possibility of sending their own official



observers. «This does not correspond to the norms,» Kolyushko and Kyrychenko said. They believe that only representatives of the central and local governments will take part in the process of forming commissions, which will provide them with broad opportunities for influencing the referendum process.

Such terms for holding an all-Ukrainian referendum cannot reflect a genuine will of the Ukrainian people and can lead to the monopolization of power by one person, the authors warned.

It is known that the Ukrainian president set up a constitutional assembly which is working on amendments to the constitution.

## **Ukrainian parliament approves new rules for electing speaker by open vote**

The Ukrainian parliament on 6 November 2012 approved a law changing the procedure for parliament's internal work. According to the new law, the parliament speaker will be elected by means of an open individual balloting.

Earlier, the parliament speaker was elected by secret voting.

The Ukrayinska Pravda news and analysis website with a reference to own sources in the pro-presidential Party of Regions has listed potential candidates to the speaker's post from the Party of Regions. These are: the deputy prime minister and minister of social policy, **Serhiy Tihipko**, the head of the Party of Regions' faction in parliament, **Oleksandr Yefremov** and Justice Minister **Oleksandr Lavrynovych**.

According to Ukrayinska Pravda, the other candidate to the speaker's post is Economics Minister **Petro Poroshenko** who has already started talks with the members of parliament who won their mandates in single-seat constituencies regarding setting up an informal parliamentary group.

## **Ukraine's pro-presidential party starts talks to set up parliamentary majority**

The pro-presidential Party of Regions has started negotiations to set up the majority in the new parliament, the head of the party's faction in parliament, **Oleksandr Yefremov**, said on 6 November 2012.

An opposition Fatherland Party member, who ran for parliament in a single-seat constituency, **Oleksandr Bryhynets**, said that the Communist Party asked 300m dollars of compensation from the Party of Regions for joining the parliamentary majority.

According to Bryhynets, this requirement pushed the Party of Regions to start election rigging at a number of problematic single-seat constituencies, as the Party of Regions needs only a few mandates to set up the majority in parliament without Communists.

## **Ukrainian tax authorities to strengthen import clearance control**

The tax police may soon obtain the right to challenge customs declarations made by importers of goods and take part in customs control at border checkpoints, the

draft procedure for cooperation between the Finance Ministry, Tax Service and Customs Service reads, the Kommersant Ukraina business daily reported on 5 November 2012.

Moreover, the tax service may instruct customs officials to send requests to tax authorities of other countries in case of suspicions of breaching the customs rules by an importer.

The head of the tax committee of the European Business Association, **Volodymyr Kotenko**, said that this extension of powers is linked to the tax service's intention "to see the full picture regarding import". "Having this information will make their life easier, as starting of 1 January 2013 the customs value will be made equal to regular value and they will have to know it to charge profit tax," Kotenko said.

The public opinion poll conducted by the Gorshenin Institute in November 2010 shows that about one third of Ukrainians (31.4 per cent) appreciate tax evasion by others.

### **Hearings into bomb blast case in east Ukrainian city to be held publicly**

The court hearings into the case charging four men with organizing bomb blasts in Dnipropetrovsk in April 2012 will be held publicly, representatives of the prosecutor's office in Dnipropetrovsk said on 8 November.

The hearings are expected to begin on 27 November.

Four residents of Dnipropetrovsk are accused of organizing bomb blasts in the city. Moreover, the State Security Service of Ukraine (SBU) established their involvement in three other blasts in October-November 2011 in Kharkiv, Dnipropetrovsk and Zaporizhzhya.

According to the public opinion poll conducted by the Gorshenin Institute in January 2011, over a half of Ukrainians (58.3 per cent) believe that there is threat of terror attacks Ukraine.

## **OPPOSITION**

### **European parliament's mission to monitor court hearings against opposition leaders is back to Ukraine**

The European Parliament's special mission led by former Polish President **Aleksander Kwasniewski** and former President of European Parliament **Pat Cox** resumed its work in Kiev on 6 November 2012.

The European Parliament delegated Kwasniewski and Cox on 6 June to act as observers in court proceedings involving former Ukrainian Prime Minister **Yuliya Tymoshenko**, former Interior Minister **Yuriy Lutsenko** and other opposition politicians.

**European human rights court's judge forecasts quick consideration of Ukrainian opposition cases**

The consideration of cases of the former Ukrainian Prime Minister **Yuliya Tymoshenko** and former Interior Minister **Yuriy Lutsenko** by the European Court for Human Rights (ECHR) will not take long, an ECHR judge, **Stanislav Shevchuk**, said in an interview with Radio Liberty on 6 November 2012.

"Since these are both high-profile cases, public hearings have been held, which is very rare. It means that European public is paying special attention to them. And not only the European public, but the world in general," Shevchuk said.

**German doctors see no possibility to continue treatment of Ukrainian jailed ex-premier in existing conditions**

The required conditions for adequate treatment of the former Ukrainian Prime Minister **Yuliya Tymoshenko** in the hospital where she stays in Kharkiv have not been established, the statement signed by specialists of the German hospital Charite reads, the Lb.ua news and analysis website reported on 8 November 2012.

The doctors believe a permission to continue treatment of Tymoshenko abroad or under house arrest can be a way out of the situation. German doctors are ready to proceed with treatment of the former Ukrainian prime minister only in these conditions.

Tymoshenko's defence lawyer **Serhiy Vlasenko** said that the Ukrainian legislation does not prohibit treatment of convicts, including Tymoshenko, abroad.

Representatives of the opposition Fatherland party said on 7 November that Tymoshenko, who went on hunger strike on 29 October protesting against the outcome of the parliamentary election in Ukraine, has not been given any medical treatment for the last ten days.

**Ukrainian Health Ministry sees no reasons to treat jailed ex-minister outside prison**

Based on conclusions by doctors, there are no grounds for treatment of the jailed former Interior Minister **Yuriy Lutsenko** outside the penitentiary institution where he is serving his four-year term, representatives of the Ukrainian state penitentiary service said on 8 November 2012.

Earlier, Lutsenko's wife, **Iryna**, said her husband's health has deteriorated. She said red stains appeared on his skin, he has constant dizziness and sickness

Representatives of the penitentiary service however denied any threat to Lutsenko's health.

## HUMAN RIGHTS

### **No improvements seen in Ukrainian prisons**

Over the past year the situation with observance of human rights in places of confinement in Ukraine has not changed. The prisoners are still kept in overcrowded cells, while tortures in prisons and detention centers remain a widespread practice, a report prepared by the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment and published on 6 November 2012, reads.

The report also points to violations of prisoners' rights. In particular, the document speaks about medical examinations of detainees conducted in the presence of the police, confinement of people in detention centers above the maximum term of 72 hours established by law, non-admission of human rights defenders and lawyers to places of detention.

At the same time, the State Penitentiary Service claims that conditions of confinement in prisons are constantly improving.

## ECONOMICS

### **Parliament increases 2012 budget deficit**

On 6 November 2012, the Verkhovna Rada endorsed the government's suggestion on introducing amendments to the law on the 2012 state budget, according to which the budget deficit grows by 960.6m dollars to 4.9bn dollars.

In such a way, the 2012 state budget outlays are set at 51.7bn dollars.

According to the approved changes, such an increase in the deficit is needed to ensure repayment of the debt accumulated due to the difference in rates for heat energy supplied to the public during 2011-2012. The deficit increase will be financed from domestic borrowings, which should amount to 8.6bn dollars.

### **Parliament discusses possible budget cuts**

On 5 November 2012, the agenda-setting council of the Ukrainian parliament proposed to review a government report on the current financial situation in the country. Head of the parliament's budget committee **Valeriy Baranov** disclosed this information to business daily Kommersant Ukraina.

"After that, perhaps, we will see initiatives for sequestration of the 2012 budget," he said.

According to the state treasury, the annual plan of budget revenues over 10 months has been completed by 73 percent.

### **2013 draft budget to be considered by incumbent parliament**

The government plans to submit to parliament its draft of the state budget for the next year on 20 November 2012, Prime Minister **Mykola Azarov** said on 6 November.

On the same day, parliament decided to hold its next plenary session on 20 November.

On 7 October, Economics Minister **Petro Poroshenko** said that the government had reviewed key macroeconomic indicators for 2013. Specifically, the GDP growth forecast for the next year has been downgraded from 4.5 percent to 3.5 percent, and the inflation forecast from 6.9 percent to 5.5 percent.

That particular economic growth forecast was agreed with the International Monetary Fund (IMF), Poroshenko said.

As business daily Kommersant Ukraina learned from a source familiar with the details of the negotiations between Ukraine and the IMF, the fund insisted that the 2013 state budget should be based on the economic growth in the current year of 1.2-1.4 percent. The budget correction should reduce the state budget revenues to 1.87bn dollars, which should also lead to a reduction in outlays.

## Foreign reserves drop by almost 2.5bn dollars in October

Last month the National Bank of Ukraine (NBU) spent 2.4bn dollars of its international reserves. Of this amount, about 400m dollars was channeled into repayment of loans to the IMF, and the rest was used for the support of the hryvnya exchange rate, news and analysis websites Lb.ua learned from senior macroeconomics analyst of Dragon Capital **Olena Belan** on 9 November.

“Such a large-scale intervention suggests that the devaluation pressure on the hryvnya increased significantly ahead of the parliamentary elections,” the expert said.

She added that due to the resistance to such a high devaluation pressure, the NBU has already lost a substantial amount of its reserves, while the overall economic activity in the country has been negatively influenced by the central bank's moves.

In October, the gold and foreign currency reserves totaled 26.8bn dollars.

## Ukraine's balance of payments drops sharply

After two consecutive months of surplus, the balance of payments of Ukraine showed a deficit of 1.1bn dollars in September 2012, which was covered from the reserves. This statistics was disclosed by the National Bank of Ukraine (NBU) on 7 November.

According to news and analysis websites Lb.ua, since the beginning of 2012, the deficit of the balance of payments totaled nearly 800m dollars.

On 6 November, parliament passed a law that gave the right to the NBU to demand obligatory sale of a certain part of foreign currency earnings by exporters. According to the document, the NBU may impose such a regulation for a period of six months. The bill was prepared by the NBU.

According to the forecasts of senior macroeconomics analyst of Dragon Capital **Olena Belan**, the deficit of the current balance of payments by the year end should reach 7.5 percent of GDP or 13bn dollars.

At a cabinet meeting on 7 November, Prime Minister **Mykola Azarov** said that due to the global economic crisis Ukraine had found itself in a difficult situation.

### **IMF mission completes work in Ukraine**

On 2 November 2012, a technical mission of the International Monetary Fund (IMF) completed its work in Ukraine. As the IMF Resident Representative Office in Ukraine reported, the technical mission will not publish the results of its work.

According to Director of the IMF External Relations Department **Gerry Rice**, the fund has not discussed the terms for resuming its stand-by programme in Ukraine.

The IMF mission started its work in Ukraine on 26 October 2012.

The day before, Fitch Ratings, an international rating agency, warned that it may lower the credit rating of Ukraine if the government fails to unfreeze the IMF lending programme.

### **Ukraine harvests 42m tonnes of grain**

Ukrainian farmers have already gathered 42m tonnes of grain on the area of 13.9m hectares (94 percent of the forecast), with the average yield landing at 3,010 kilograms per hectare, the Ministry of Agricultural Policy announced on 5 November 2012.

According to the ministry's preliminary estimates, the harvest of sunflower totals about 7.9m tonnes.

### **Defence industry loss-making in Ukraine – ministry**

Over a third of Ukrainian enterprises in the military industry complex posted losses in January-September 2012, First Deputy Defence Minister **Oleksandr Oliynyk** said on 7 November. At the same time, he said that “the total amount of loss exceeds the overall profit of all the other enterprises in the sector.”

According to the press service of the Ministry of Defence, Ukraine's military industry complex comprises 162 enterprises and institutions.

## **ENERGY MARKET**

### **Spanish company named main investor in LNG terminal project**

Spanish company Enagas may become the major financial investor in the project for the construction of a liquefied natural gas terminal (LNG terminal) during the first stage of the project. The announcement was made by head of the coordination board of the national project “LNG Terminal” **Vitaliy Demyanyuk** on 8 November 2012.

He said that the contribution of Enagas into the project may reach 75 percent, while the state's share will make 25 percent.

Enagas operates the gas transport system of Spain. It also owns and operates three LNG terminals in Spain, has interests in three more terminals in Spain, Mexico and Chile.

It is expected that the construction of the LNG terminal in Ukraine will begin on 15 November. It will be located near the sea port of Pivdennyy in Odesa region.

### **Ukraine receives first gas from Europe**

On 1 November 2012, Ukraine started reverse supplies of natural gas from Germany. The news was announced by Prime Minister **Mykola Azarov** on 6 November.

According to the Dzerkalo Tyzhnya weekly, the gas is purchased from German company RWE and is pumped through the territory of Poland. The current agreement with RWE provides for the delivery of up to 1.4bn cu.m. of gas per year with a potential to increase supplies to 5.4bn cu.m.

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