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Ukrainian parliament delays final vote on anti-corruption law

The Ukrainian parliament has debated and voted in favor of 33 clauses of a draft law on preventing and fighting corruption in Ukraine, which was proposed by President Viktor Yanukovich.

The lawmakers sent part of Article 12 of the draft law, which talks about declaring the revenue and expenditure of state officials, for revision.

According to first deputy speaker **Adam Martynuyk**, parliamentarians will continue debating the draft law during the session on 15 March 2011.

A host of lawmakers from different parliamentary factions criticized the draft law stating that it lacked a requirement that families of state officials must declare their revenues, property and expenditure. "If this law contains no provision that family members of all the state officials must declare their revenue, then it will hardly change anything. You can ask authorities about what they own. Officially, they do not have anything. Everything is registered by their wives, mothers-in-law, brothers and sisters," MP **Valeriy Konovaluk** of the Party of Regions explained.

A number of lawmakers demanded that a provision requiring officials to declare the revenues and expenditures of their relatives be added to the draft law. However, the Committee on Fighting Organized Crime and Corruption turned down their request to add such a clause to the bill. It explained that the Constitutional Court's ruling of 6 October 2010 recognized that the provision of information about the assets of the families of state officials violated the constitutional rights of the latter, and, based on this, declared the corresponding requirement of the anti-corruption draft law unconstitutional.

Ukrainian parliament rejects bill extending land sale moratorium

The Ukrainian parliament has not passed a bill that would extend a moratorium on farmland sale for three more years, until 1 January 2015.

Only 117 out of 226 lawmakers voted in its favor. Parliamentary speaker **Volodymyr Lytvyn** suggested to postpone a decision on the issue until parliamentary hearings on Ukraine's land market are held on 23 March 2011.

The bill proposed to extend the farmland sale ban until 1 January 2015, since laws regulating the state's land cadastre, registration of land plots, farmland and land for other purposes have not been adopted yet.

The authors of the bill advocated the moratorium extension in the absence of accurate data on the land composition and given the unavailability of a financial assessment of farmland. Hence, they argued that a price mechanism and a land assessment did not exist.

It was previously reported that the moratorium on farmland sale will not expire in Ukraine until 1 January 2012.

According to MP **Vasyl Kyselyov** of the Party of Regions, the government robs its citizens by extending the moratorium. "As of today, almost 7m Ukrainian citizens received 27m hectares out of 42m hectares of farmland. This land works to a third of its capacity because it has no owner. They exhaust it by rape and sunflower and then finish up by taking new lands," he opined. Kyselyov also drew attention to the fact that a shadow land market had been in existence in Ukraine for quite a long time.

The leader of the Ukrainian People's Party, MP **Yuriy Kostenko**, believes that the moratorium on land sale cannot be lifted under the current conditions. According to him, taking such a step without large-scale land reform is a crime against Ukraine. "If the land moratorium is lifted in Ukraine in 2012, then, under the conditions of today's political and economic crisis, big business will buy 70-80% of the Ukrainian land for a song, because ordinary Ukrainians will not have access to bank loans for at least three-five years," he said.

International financial organizations concerned about efforts to monopolize Ukrainian market of agricultural produce

Ukraine needs to liberalize its grain market in accordance with the WTO requirements as a new IMF precondition for receiving the next tranche of a loan.

This commitment of the Ukrainian government is laid out in the draft Memorandum on economic and financial policy that the Ukrainian party and an IMF mission agreed upon during their meeting in Kiev on 1-14 February 2011. The IMF suggested to regulate grain exports with corresponding taxes or, at the very least, to distribute export quotas more transparently, for example, by using auctions.

We shall remind you that Western countries repeatedly criticized the actions of the Ukrainian government on the grain market. In particular, the French ambassador to Ukraine, **Jacques Faure**, stated that an intention of the Ukrainian government to set up a state agency, which would be granted monopoly rights to export vital for the society agricultural produce, contradicts the official statements of Kiev, as well as the principles guiding the European Union's (EU) work.

The former presidential administration head, **Oleh Rybachuk**, believes that the situation on Ukraine's grain market threatens its officials. "I hope it will not be news for the presidential administration is something more serious than the EU sanctions takes place," he said. According to him, President **Yanukovych** and United States (US) Vice-President **Joseph Biden** discussed the situation with the grain market during their telephone conversation using harsher words than it was reported in an official press release.

The European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF) and World Bank also sent Ukraine a letter, in which they urged its government to consider potentially negative consequences that might stem from its adoption of the draft law "On amending the law of Ukraine 'On state support of the Ukrainian agriculture'." "We believe that if it passes, this bill will establish a state monopoly on grain export and will lead to the actual elimination of private grain traders from the market," the letter stated. Besides, representatives of the international financial organizations have the impression that the adoption of this draft law will deter possible long-term investment in grain manufacturing and processing.

For its part, the American Chamber of Commerce (ACC) in Ukraine also sent a letter to President V. Yanukovych, in which it stated that amending the law "On state support of the Ukrainian agriculture" could economically isolate Ukraine. Its representatives believe that if the proposed amendments pass, Ukraine will be again perceived as a state without market economy and with the legislation that violates the rights of foreign and domestic investors, as well as supports monopoly and corruption. "It will lead to a critical situation with the inflow of new foreign and

domestic investment into the infrastructure of agriculture and industry. The Ukrainian state might face multibillion international lawsuits over a loss of investment and revenue," the ACC warned.

As previously reported, the Parliamentary Committee on Agrarian Policy and Land Relations approved the draft law that established new rules of grain export and limited the number of entities with the right to export agricultural produce.

Ukraine, EU might sign Association Agreement by end of 2011 – German Foreign Ministry

German Foreign Minister Guido Westerwelle believes that an EU-Ukraine Association Agreement might be signed by the end of 2011.

He added that in order to reach this goal, the Ukrainian government needed to continue implementing reforms and supporting democratic values and standards.

For his part, Ukrainian Foreign Minister **Kostyantyn Hryshchenko** noted: "We reached the point when very tough decisions will have to be made. We hope that such decisions will be taken by both parties."

"We proceed from the fact that Ukraine can boost the EU's competitiveness by signing this agreement. Similarly, our entry into the European market could strengthen the tendency to conduct business in the European manner in Ukraine. This is one of the steps towards our fundamental goal of a complete integration into the EU," he added.

It is to remind that Ukraine and the EU are holding talks on setting up a free trade area under the EU-Ukraine Association Agreement. Ukrainian Prime Minister **Mykola Azarov** said that an agreement on a free trade area with the EU was 90% ready. However, he noted that the issues, which the parties would still have to debate, were the most sensitive for Ukraine. The prime minister mentioned the EU's requirement to set quotas for the Ukrainian agricultural produce and its stance on the access of the Ukrainian transportation companies to the European market among those issues. He concluded that Ukraine would be defending its national interests in those areas.

For his part, Russian First Deputy Prime Minister **Igor Shuvalov** proposed that Ukraine set up a free trade area with the EU after it joined the Customs Union between Russia, Belarus and Kazakhstan.

US urge Ukraine to avoid application of selective justice to former officials

The US have called on Ukraine to avoid subjecting the former officials to selective justice, the US embassy in Ukraine quoted Vice-President Joseph Biden as saying during a telephone conversation with President Yanukovich. The US vice-president also emphasized that electoral reform in Ukraine should not infringe on the rights of any political forces in the state. According to him, the adherence to these principles would strengthen Ukraine's bid for the EU and attract foreign direct investment.

Previously, the US repeatedly expressed their concern about criminal persecution of the former members of the **Tymoshenko** cabinet. Yet, the Ukrainian government denied the accusations of selective criminal persecution. President Yanukovich and Prime Minister **Azarov** emphasized that criminal cases over graft had been launched against members of the current government.

Ukraine, EU reach deal on settling conflict over amendments to law on state purchasing

Ukraine and the EU are negotiating amendments to a law on state purchasing, the first deputy head of the presidential administration, Iryna Akimova, said.

“If the issue is resolved as soon as possible, we can count on tranches, estimated in total at 126m euros, in the summer 2011,” she explained.

As previously reported, at the end of February 2011, the EU officially notified Ukraine about a freeze of its budget aid to Ukraine's state bodies in relation with the amendments to the state purchasing procedure, which the Ukrainian parliament had approved. In particular, parliament authorized the state-funded procurement of energy for electricity and heating, natural gas, heating oil, as well as their delivery and distribution without tenders for purchase.

According to media, the presidential administration found out about the EU's aid freeze after the sanctions had been imposed.

Ukrainian government plans to pay Rosukrenerho with IMF money – Tymoshenko

The Ukrainian government intends to use an IMF loan to pay Rosukrenerho (RUE), the leader of the Batkivschyna party, Tymosehko, has said.

She added that she had a letter signed by Prime Minister **Azarov**, Finance Minister **Fedir Yaroshenko** and the former head of the Security Service of Ukraine (SBU), **Volodymyr Stelmakh**, on behalf of the Ukrainian government, which outlined the intentions towards the IMF loan. She noted that this document had been signed on 10 December 2010 but was published only in February, which served as evidence of the government's desire to cover up its genuine intentions toward the use of the IMF funds. According to her, the document envisages that Ukraine will pay the RUE 1.5bn dollars. “We discovered this statement of intentions, which specifies in the article 16 the terms of paying RUE 12.1bn cu. m of gas. And it says here pretty clearly what stages this will have to pass,” Tymoshenko said.

She explained that the letter envisaged that Ukraine would receive an advance of 1.5bn dollars from Gazprom for the transit of Russian gas through its territory. Following the letter's article 16, this 1.5bn will be transferred to RUE. “Not to the budget, not to urgent expenditure, not for balancing the state budget but directly to a corrupt scheme devised by RUE. This means shadow funding for the family of Yanukovich,” she added.

According to Tymoshenko, leaders of the IMF's contributing countries should find out about how Ukraine intends to use its tranches in reality. She also noted that the Ukrainian debt to RUE was the same as the amount of the next IMF tranche or 1.5bn dollars. “I would like to ask whether this is a direct financing of the machinations, which all the Ukrainian experts consider open and cynical corruption?” Tymoshenko said.

As previously reported, the IMF adopted a decision to grant Ukraine the second tranche worth 1bn of Special Drawing Rights (SDR), which equals approximately 1.5bn dollars, on 22 December 2010.

Following the rulings of the Arbitration Institute of the Stockholm Chamber of Commerce of 30 March 2010, Ukraine is responsible for meeting certain property and financial commitments. In particular, it should return 11.1bn cu. m of gas to RUE, as well as pay it 1.1bn cu. m of gas and 197m dollars as compensation.

Human rights activists complain about police

The number of human rights violations by the Ukrainian Interior Ministry significantly increased in 2010, an annual report of the Ukrainian human rights organizations, prepared with the input from the Ukrainian Helsinki Human Rights Union and the Kharkiv Human Rights Protection Group, said.

According to human rights activists, there were approximately 50 reports about the deaths from police in 2010, as compared to 21 in 2009. According to a survey conducted by the Kharkiv Institute of Sociological Research and Kharkiv Human Rights Protection Group, roughly 780,000-790,000 people suffered from police brutality in 2010 (604,000 in 2009).

The report also acknowledged that the rights of policemen were also frequently violated because they “are completely dependent on their superiors, often have to work for 10-14 hours without a compensation, receiving really small wages.”

As previously reported, the Council of Europe Parliamentary Assembly (PACE) criticized Ukraine for not carrying out the rulings of the European Court of Human Rights on time. It listed deaths or injuries caused by the police brutality, illegal or unjustifiably prolonged detention, detention with subsequent court hearings and failures to comply with court decisions among the most common human rights violations in Ukraine.

Ukrainian television shows only government

Members of the Ukrainian government featuring in TV news represents 84% of the coverage on the Ukrainian television channels.

The results of a survey, which monitored Ukraine's flagship television channels in December 2010 and February 2011, were published by the Academy of the Ukrainian Press and the Institute of Sociology of Ukraine's National Academy of Sciences (NAS).

“The government members and representatives of the ruling coalition improved their position in February. Current officials had 84% of sound bites, the opposition had 14% and other politicians have only 2%,” the head of the mass communication department of the Institute of Sociology of the Ukrainian NAS, **Nataliya Kostenko**, said.

Russian banks intensify expansion on Ukrainian market – experts

Experts and analysts claim that the Russian rouble has started an active expansion on the Ukrainian market.

“We observe an intensified market expansion of the Russian banks in Ukraine,” the CEO of Raiffeisen Bank Aval, **Volodymyr Lavrenchuk**, said.

As previously reported, Russia's largest VTB Bank exported over 1bn hryvnyas (0,13bn dollars) to Ukraine at the end of 2010. Prominvestbank, which was bought in full by the Russian Vneshekonombank in January 2009, also announced about an increase in the volume rouble loans. Sberbank Rossii started granting consumer and collateral loans in roubles. The interest rates offered by the Russian banks are much lower than those in the Ukrainian banks.

According to loan consultant **Vitaliy Marynin**, such a discrepancy in the interest rates suggests that the Russian banks are trying to fill our niche of the foreign currency loans in Ukraine faster than their Western colleagues even if it means losing money. The director-general of European Capital Management, **Vadym Brailovskyy**, believes that yet another Russian bank, Gazprombank, will show up

on the Ukrainian market. According to Marynin, an entry of the third largest Russian bank on the Ukrainian market of financial services, which belongs to the Gazprom company, will be the final stage of the rouble expansion.

Potential volumes of shale gas to be explored in Ukraine by mid 2012**Ukraine will explore potential volumes of shale gas on its territory, Minister of Energy and Coal Industry Yuriy Boyko said.**

"Although experts, in particular, those from the US, believe that the situation with shale gas is more attractive in Ukraine than in the US, we will understand the actual situation in mid 2012," he said.

As previously reported, the national joint-stock company Naftohaz Ukrayiny and the Exxon Mobil company signed a memorandum on cooperation in the exploration of unconventional hydrocarbons in Ukraine. In the past, the Chevron and Shell companies also expressed their interest in the extraction of the Ukrainian shale gas.

The director of the Institute of Geological Sciences of the Ukrainian NAS, **Oleksandr Todiychuk**, said that there had been recently a lot of talk in Ukraine about alternative sources of energy and the energy independence, yet little had been done in this direction. According to him, it is more profitable to invest in saving energy in Ukraine than in exploring new energy sources. "We have such a low level of using and saving energy that each dollar invested in this sector will have a much bigger impact than the creation of new energy sources," he said.

Ukraine to enrich uranium in Russia – Ukrainian energy and coal industry minister**Ukraine will have a full cycle of uranium enrichment in 2011, Ukrainian Energy and Coal Industry Minister Boyko said.**

However, he noted that the enrichment of uranium would take place in Russia.

The minister emphasized that Ukraine was a stakeholder of the International Uranium Enrichment Center in Russia's Irkutsk Region. "Hence, we will have a full cycle of uranium enrichment this year, although not on our territory but in Russia," Boyko explained. According to him, Ukraine will produce tablets for the TVEL company, increase the production of uranium and uranium concentrate.

In 2010, the Russia-based TVEL corporation and the Ukrainian state-run company Yaderne Topylyvo (Nuclear Fuel) signed an agreement to establish a joint company in Ukraine, with an equal control of shares, to produce nuclear fuel for the nuclear reactors VVER-1000, using Russian technologies. There are plans to launch a plant with the capacity of 400 tons of uranium a year into operation in 2012, provided Ukraine promptly chooses and approves the plant location, as well as develops a technical and business plan. The Ukrainian government intends to invest 250m dollars into the construction of a new plant for processing uranium on the basis of Novokostyantynivsk deposits in Kirovohrad Region.

Previously, Ukraine renounced from deposits of highly-enriched uranium and received 450m hryvnias from the USA to remove it from its territory until 2012.

Naftohaz Ukrayiny plans to make IPO**The national joint-stock company Naftohaz Ukrayiny intends to make an initial public offering (IPO) in 2012-2013, its head Yevhen Bakulin said.**

According to him, in order to make an IPO, the Naftohaz Ukrayiny needs to restructure its debt and determine its prospects, which will take one and a half to two years. "We will make a plan of how to start selling shares so we make a good

bargain,” Bakulin explained. He also noted that a decision about a stock market on which the shares will be offered has not been taken yet.

According to Boyko, there is a plan for a partial offer of the company shares on one of the market stands during the restructuring of Naftohaz Ukrayiny. The government will propose corresponding amendments to the law on pipeline transport, the minister said.

According to an advisor to the US Securities and Exchange Commission, **Shelly Han**, in order to make an IPO on international stock exchanges, Naftohaz Ukrayiny will have to follow the requirements of the new US legislation as regards the transparency standards. In particular, any extracting company that wishes to offer its shares on the American stock exchanges, will need to include detailed information related to any payments made by the company, its subsidiaries or other affiliated legal entities into its annual report. “The US will work to ensure that the mechanisms provided for in the law are practiced by other large stock exchanges such those in London and Tokyo,” Han explained.

The director of the consulting company A-95, **Serhiy Kuyun**, believes that the issue of transparent business operation will seriously complicate the preparation of Naftohaz Ukrayiny for making an IPO, since the current obscure methods of the company's operation allow its management and the officials who stand behind it to get significantly enriched.

A Rosukrenerho co-owner, **Dmytro Firtash**, believes that 20-25% of shares of Naftohaz Ukrayiny can be sold on a stock exchange, which will bring Ukraine 20bn dollars in investment. He added that the establishment of a Ukrainian-Russian gas consortium would not be beneficial to Ukraine. “First, the Ukrainian gas transport system is in a better condition than the one in Russia. Second, this project envisages a merger between Gazprom and Naftohaz Ukrayiny. However, this proposed merger will simply allow Gazprom to absorb Naftohaz Ukrayiny. I believe – and I try to convince the government and the president of the same – that it is necessary to take Naftohaz Ukrayiny to a stock exchange. Only there will we find out how much it costs,” the businessman opined.

As previously reported, Naftohaz Ukrayiny is an umbrella company for large oil and gas extracting enterprises in Ukraine. It holds a monopoly on the transit and storage of natural gas in underground storage facilities as well as on the transport of oil through pipelines across Ukraine.

Ukraine ready to mediate between Belarus and EU

Ukraine ready to serve as a mediator between Belarus and the EU to normalize their relations, the Ukrainian ambassador to Belarus, Roman Bessmertnyy, has said.

“The possibility of mediation was raised by President Yanukovich. The head of the Foreign Ministry of our country talks about it, the head of the Parliament talks about it, too,” the diplomat said.

Bessmertnyy noted that Ukraine was very concerned about human rights. “Our evaluation of the state of human rights in Belarus, especially during and after the events on 19 December 2010 coincides with that of the EU,” he added. However, the diplomat emphasized that Ukraine would not support the absolute isolation of

Belarus and would continue cooperating with it in the economic sector. “We proceed from the fact that Ukraine and Belarus are neighboring states, we share 1,000 kilometers of the border, which, by the way, has not been demarcated at present,” he explained.

The Ukrainian diplomat also noted that Ukraine opposed the beginning of work by the Euronest (the Parliamentary Assembly of the Eastern Partnership) without Belarus. “Almost 10m of the Belarusian population are in the center of Europe. One way or the other, Belarus should take part in all the cooperation forums on the European continent. The Euronest will be inadequate without Belarus,” Bessmertnyy concluded.

PARLIAMENT MEMBERS ATTEMPT SOFTENING PROVISIONS OF ANTI-CORRUPTION LAW AS MUCH AS POSSIBLE TO SATISFY PERSONAL NEEDS – EXPERTS

The Gorshenin Institute held a round table discussion Fighting Corruption: Ukrainian Style, where experts discussed the problem of corruption in the country and the ways to combat it.

The participants in the round-table discussion said that the corruption-fighting shall be managed by authorities independent from the Ministry of Internal Affairs and working on different principles than the Ministry.

Opening the discussion, the first deputy head of the Ukrainian Parliament's committee on combating the organized crime and corruption, **Hennadiy Moskal**, said that the parliamentary majority was attempting to soften as much as possible the provisions of the draft law On Principles of Preventing and Fighting Corruption in Ukraine to satisfy their personal needs. The draft law was submitted by Ukrainian President **Viktor Yanukovych**. In particular, Moskal recalled that one and a half years ago the Ukrainian parliament already approved a package of laws aimed at fighting corruption, however the enactment of the laws was postponed three times and later the laws were cancelled. Moskal also said that members of parliament are trying to do everything possible to keep their personal interest intact. That is why the draft law submitted by the president, if approved, will not be accepted in Europe.

The MP, member of Parliament's Committee on Justice, **Serhiy Vlasenko**, said for his part that the mentioned anti-corruption law 90 per cent reproduces the earlier approved and cancelled law and “the remaining 10 per cent makes the earlier law softer”. According to Vlasenko, if the law does not include a provision obliging officials' relatives to declare their expenses, the law won't work effectively. “There will be mothers-in-law in our country worth of tens of millions dollars,” Vlasenko said. He also said that today corruption means bribery to people while bribery is just an element of corruption. Vlasenko is convinced that it is necessary to change the ideology of fighting corruption in the country. “The main problem of fighting corruption in Ukraine is that there is no strategy and ideology for doing that,” Vlasenko said. In particular, Vlasenko said it is necessary to introduce a mechanism to make it impossible for a bribe-taker to spend the illegally received money. Vlasenko also said that without attention from public, media and European institutions it will not be possible to change the state of corruption in Ukraine.

The chairman of the International Association of Officers Combating Organized Crime, **Oleksandr Davydenko** said that openness and transparency of authorities in charge of enforcing the state policy in this foeld will help fighting corruption and organized crime. “If the responsible persons are unknown it means that there is no responsibility,” Davydenko said. He also said that now the names of those who develop the methods of fighting corruption and organized crime and control their implementation are not known.

Ukrainian Federation of Employers Board Member **Yuriy Bohuslavskyy** said that

corruption decreases Ukraine's competitiveness. "Corruption creates monopoly. This affects the country's competitiveness. As a result, Ukraine may soon end up with the level of competitiveness of African countries," - Bohuslavsky said.

The chairman of public organization Ukrainian Anti-Corruption Committee, major-general **Andriy Koval**, said that there is a need for a more active cooperation between NGOs and the Ministry of Internal Affairs and State Security Service of Ukraine.

LB.UA Internet Portal Chief Editor **Sonya Koshkina** said that one month ago LB.UA decided to support Ukrainian President Yanukovich's initiative on fighting corruption. "Over the past year, Yanukovich repeatedly said that corruption interferes with our life. Yanukovich said this when talking to the nation on TV on the first anniversary of his inauguration, this phrase was also heard a number of times over the last year. When Yanukovich meets people they complain him of being demanded bribes in policlinics or in the Odessa sea port to load lorries with grain. But when the president asks people to give him specific facts: names, positions, addresses and office numbers, people become confused. We decided to help the president learn these facts and addresses: we set up a special section called Corruption-STOP at our web-site. This is a sort of a coordination office where people may send their complaints, both unanimously and publicly. We already have several hundreds of complaints, and what is more, most of them tell about major abuses. These are violations by tax authorities, large bribes. We process the complaints and forward them to respective authorities - the National Security and Defense Council, Prosecutor-General's Office. In other words, we inform the government on the events at a local level, - Koshkina said.

Koshkina also told about another activity within the Corruption-STOP project: journalistic investigations. "We had a series of publications prepared based on letters and investigations in the Odessa sea port. We received information about corruption in the area of land management in Kharkiv Region, we are about to finish the journalistic investigation on this issue. We decided to involve ourselves in this subject as people began complaining to us. Because if we do not make these facts public nothing will ever change," Koshkina said.

Reference:

In 2010, Gorshenin Institute conducted a telephone survey on the topic "Corruption in Ukraine." Its results show the following trends:

1. Ukrainians recognize that corruption is rampant in Ukraine

The majority of the respondents (86.0%) believe that bribery is common in Ukraine. As many as 54.8% of them think that it is «very common,» while nearly a third of the respondents believe that is «common.» According to 8.8% of the survey participants, bribery is not common in Ukraine. Among them, 7.4% expressed their confidence that it is «not very common» and 1.4% said it was «not common.» Approximately 5.2% of the respondents did not give an answer to this question.

2. Although Ukrainians have a negative attitude towards the phenomenon of corruption, they resort to it to solve their problems.

As many as 68.8% of the Ukrainian citizens had to give money or gifts to the people, who could solve their problems. Almost one fifth of the respondent did not have such an experience (18.9%), while 12.3% did not answer the question.

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