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Former Ukrainian interior minister found guilty, sentenced to four years behind bars

On 27 February 2012, the Kiev Pecherskyk district court sentenced former Ukrainian Interior Minister Yuriy Lutsenko to four years in prison with property confiscation.

The court found the former minister guilty of embezzlement and the appropriation of budget funds, which had inflicted the loss of 85,500 dollars on the state.

In Lutsenko's opinion, the verdict turned out to be the way it had been planned. "We became the witnesses of a final confirmation of the absence of independent and fair trial in Ukraine." The lawyers of the former minister said that the verdict would be appealed as soon as they receive a copy of the court's ruling.

In his turn, prosecutor **Viktor Klymenko** pointed out that the court had found Lutsenko guilty on all counts. "Today's verdict will make our society better since everyone will understand that an appointment to a top post envisages personal responsibility for one's actions," he added.

Lutsenko's sentence stirred a negative reaction of the world community. In particular, representatives of the EU, the USA, other European countries and international human rights organizations harshly criticized the verdict.

For its part, Ukraine's pro-presidential Party of Regions said that the court ruling was fair and expressed dissatisfaction with a wave of criticism from Western countries.

For example, Party of Regions MP **Valeriy Bondyk** said that foreign politicians had no right to comment on and to evaluate trials taking place in Ukraine. His colleague from the same parliamentary faction, **Olena Bondarenko**, expressed disappointment with the EU position. "I remember well how the EU quietly and indifferently treated those actions, which **Viktor Yushchenko, Petro Poroshenko** and **Yuliya Tymoshenko** allowed themselves in respect to the Party of Regions in 2005," she noted.

The Ukrainian opposition considers Lutsenko's sentence to be a case of political persecution and an act of revenge on the part of the government. At the same time, opposition members question the independence of judge **Serhiy Vovk**, who delivered the verdict in Lutsenko's case.

The Ukrainian news and analysis website Lb.ua reported that during Lutsenko's trial, the Supreme Court of Ukraine (SCU) was considering a motion submitted by the Prosecutor-General's Office of Ukraine (PGO) to launch a criminal case against Serhiy Vovk. Since 2009, he has been facing accusations of corruption and "unfair decisions". If Vovk is found guilty, he might be jailed for five years.

On 1 March 2012, the SCU ruled that the launch of the criminal case against Vovk was legal.

The opposition believes that this will make it possible for the government to use this judge in the future for "reprisals" against opposition members.

As reported earlier, on 17 April 2012, the European Court of Human Rights will hold a public hearing of Lutsenko's appeal over his allegedly illegal detention and arrest and also over a violation of his right to fair trial.

In the opinion of a former judge of the Strasbourg-based court (1997-2008), **Volodymyr Butkevych**, the European Court of Human Rights is likely to make a

decision which will oblige Ukraine to release Lutsenko. "The court in Strasbourg will not let a single country not to adhere to at least minimum standards," he added.

Former Ukrainian premier has no intention of asking president to pardon her

On 28 February 2012, Ukrainian former Prime Minister Yuliya Tymoshenko said that she did not intend to ask Ukrainian President Viktor Yanukovich to pardon her.

"This cynical proposal is categorically unacceptable," she explained.

Earlier, President Yanukovich said in an interview that he would consider the possibility of pardoning the jailed former prime minister if she asked him to do so.

IT on 27 February 2012, the secretary of the National Security and Defence Council of Ukraine, **Andriy Klyuyev**, admitted that Tymoshenko's case had a negative impact on the country's reputation and, consequently, a detrimental effect on the general dynamics of the Ukraine-EU relations.

"I would like to give assurances that the government of the country spares no effort to ensure a further unbiased and transparent consideration of the case appeal in accordance with the national legislation and European standards," Klyuyev noted. At the same time, he mentioned the existence of the principle of "irreversible criminal responsibility for criminal violations regardless of the post and political career of Ukrainian citizens".

US court sets date of hearing in "Tymoshenko vs. Firtash" case

On 30 March 2012, a New York court will hold a preliminary hearing in the case filed by Tymoshenko against the RosUkrEnergo company co-owner, Ukrainian tycoon Dmytro Firtash.

In April 2011, Tymoshenko filed a lawsuit with a New York court against the Swiss-based company RosUkrEnergo and its co-owner Firtash, accusing him of fraud, human rights violations and extortion.

The document submitted to Manhattan's district court says that RosUkrEnergo and Firtash "undermined the supremacy of law in Ukraine" and "deceived citizens" by influencing a ruling of the Arbitration Institute of the Stockholm Chamber of Commerce.

New registration, accreditation procedures complicate work of foreign mass media in Ukraine

Foreign journalists have written a letter to Ukrainian President Viktor Yanukovich about the infringement of their rights in the country.

On 27 February 2012, the president's press secretary, **Darka Chepak**, said that representatives of foreign mass media in Ukraine had sent a letter to the presidential administration with a complaint that the new accreditation rules and procedures for receiving visas for journalists substantially complicated their work in Ukraine.

«Now, in order to receive a visa, one needs to make a financially costly and lengthy trip back home and then undergo an extended registration process upon a return to Ukraine. Given these problems, the number of journalists who live in and write about Ukraine might decrease,» the statement said.

The Ukrainian Foreign Ministry said that they spare no effort to make the process of issuing long-term visas for foreign journalists as simple as possible.

In her turn, Chepak invited foreign journalists to take part in a meeting of an interdepartmental working group for analyzing the state of adherence to the legislation on the freedom of speech and the protection of journalists' rights which is scheduled for 15 March 2012.

**Ukrainian Foreign
Ministry admonishes
EU envoy**

A diplomatic scandal is brewing between Ukraine and the EU.

On 28 February 2012, the Ukrainian Foreign Ministry said that it was paying attention with growing astonishment to the statements by EU envoy to Ukraine **Jose Manuel Pinto Teixeira** which "month by month correspond to a smaller degree to what diplomats can allow themselves under the traditions established in international communication".

The mass media reported that the Ukrainian Foreign Ministry intended to summon Teixeira for a conversation.

In her turn, the press secretary of the **EU** high representative for Foreign and Security Policy, **Maya Kochiyanchich**, said in an official statement that the criticism of the Ukrainian Foreign Ministry was unjustified and ungrounded.

However, on 2 March, Ukrainian Foreign Minister **Kostyantyn Hryshchenko** acknowledged that the EU envoy had not violated diplomatic etiquette. Furthermore, he said that the exchange of statements between the Foreign Ministry and the EU was "an expression of opinions."

On 4 February 2012, the press secretary of the EU representative office in Ukraine, **David Stulik**, said that Jose Manuel Pinto Teixeira would leave Ukraine this year. According to him, this decision is not related to the recent scandal and is an established practice of rotating ambassadors.

Teixeira's term in office as EU's envoy to Ukraine expires in July 2012.

On 28 February 2012, the EU envoy to Ukraine criticized the Ukrainian government for using selective justice. Additionally, in the diplomat's opinion, President **Viktor Yanukovich** failed to fulfill his promise of improving Ukraine's business climate and combating corruption.

**Ukraine to elect new
ombudsman**

Ukrainian parliamentary speaker Volodymyr Lytvyn said that parliament will vote for the ombudsman's candidacy on 13 March 2012.

According to the speaker, two candidacy proposals were submitted to parliament. These candidates are **Yevhen Zakharov** and **Valeriya Lutkovska**.

Zakharov's candidacy was proposed by MPs of the opposition Yuliya Tymoshenko Bloc (YTB), while Lutkovska's candidacy was submitted by the pro-presidential Party of Regions.

On 8 February 2012, **Nina Karpacheva's** third term in office as Ukraine's ombudsman expired. She had been serving on this post since 1998. According to Karpacheva, she has not decided whether she would like to run for the ombudsman again.

Currently, Lutkovska serves as the Ukrainian Justice Ministry's envoy to the European Court of Human Rights. According to some mass media, she used to be a

business partner with Justice Minister **Oleksandr Lavrynovych's** son.

Zakharov shares the chairmanship of a Kharkiv human rights group.

**Ukrainian
Constitutional Court
receives another
request to consider
whether election law
violates constitution**

The Constitutional Court of Ukraine (CCU) has received a request to check whether another provision of the law on electing MPs violates the constitution.

On 28 February 2012, 59 MPs of the Party of Regions challenged the constitutionality of the election law's provision under which voters who live abroad have the right to vote not only for party lists but for candidates who run in Kiev's single-seat constituencies.

According to the Party of Regions, this provision creates unfair conditions by upsetting a balance of voters in Kiev's single-seat districts.

The opposition believes that the Party of Regions challenged the provision at the CCU for a different reason. "This norm led to an increase in single-seat constituencies in Kiev. As a result, their number dropped in Donetsk, Kharkiv and Luhansk. Kiev's districts are not reliable for the Party of Regions. That is why they want to retain them in those regions where they are hoping to win," an MP of the opposition Our Ukraine-People's Self-Defence parliamentary faction, **Yuriy Klyuchkovskyy**, explained.

Earlier, the Party of Regions asked the CCU to check whether the provision of the election law under which one can run for a parliamentary seat both as a party list candidate and as a candidate for a single-seat constituency violated the constitution.

**Ukraine spends about
2.5bn dollars on
preparations for Euro
2012. UEFA calls on
Ukrainian hotels to
reduce
accommodation prices**

Budget spending on preparations for Euro 2012 exceed 2.5bn dollars.

"The government investments into the implementation of the projects that are directly or indirectly related to Ukraine's preparations for the European Football Championship of 2012 have amounted to about 20bn hryvnyas (2.5bn dollars)," **Valeriy Zhaldak**, the deputy head of the National Agency for Preparations for Euro 2012, said.

Meanwhile, UEFA Operations Director **Martin Kallen** said that some hotels in the cities hosting Euro 2012 matches are setting extraordinarily high prices for accommodation.

Later, Deputy Prime Minister and Infrastructure Minister **Borys Kolesnikov** said that the government will find necessary leverage to ensure acceptable hotel prices in Ukraine for the guests of Euro 2012.

**Number of Ukrainian
cheese makers
banned from imports
to Russia increased.
Ukraine wants to
appeal to WTO to
solve cheese problem.**

"Cheese war" between Ukraine and Russia continues.

On 27 February, 2012, **Gennadiy Onishchenko**, the head of Russia's Federal Service for Consumer Rights Protection (Rospotrebnadzor), announced that Russia banned imports of cheese from another group of Ukrainian enterprises, specifically Bashtanka (belongs to Milk Alliance Group), and Lozova (Almira) cheese factories, Shostka city dairy factory (Bel Shostka Ukraine) and Khmelnytsky butter and cheese factory.

Earlier, Rospotrebnadzor suspended imports of cheese to Russia from three

Ukrainian producers – Pyryatyn cheese factory (Milk Alliance Group), Prometeya (part of Milkiland) and Gadyachsy (Almira)

The Russian consumer protection agency claims that cheeses produced by the mentioned Ukrainian companies do not comply with the Russian quality standards since they contain an excessive amount of palm oil.

Due to the ban on imports of Ukrainian cheese to Russia, the Ukrainian producers started to shut down their enterprises and reduce production volumes, which resulted in lower purchase prices of milk. According to experts, if the situation does not change in the near future, farmers will have to butcher their cattle, which can lead to a significant shortage of raw milk in the future.

On 29 February, 2012, Ukrainian Agricultural Policy Minister **Mykola Prysyazhnyuk** said that Ukraine will have to appeal to the World Trade Organization (WTO) despite the fact that Russia is not a full member yet.

For his part, Ukrainian Ambassador to Russia **Volodymyr Yelchenko** pointed out that the Russian side has deliberately brought the conflict to public's attention. "I wouldn't say that there are certain political reasons. Perhaps, they want to show Ukraine in an unfavorable light in connection with certain processes that are taking place," he said.

Ukraine bans imports of meat and dairy products from Belarus

Starting from 1 March 2012, Ukraine prohibited imports of milk, dairy products and pork from Belarus.

According to First Deputy Chairman of the State Veterinary and Phytosanitary Service of Ukraine **Volodymyr Horzheyev**, starting from October 2011, the Ukrainian health services began to find antibiotic drugs in Belarusian dairy products that exceed permissible norms. "It's not the fault of any particular company. The blame lies with the Department of Veterinary Monitoring of Belarus, which failed to ensure proper control over the products in its country. Therefore, the sanctions will apply not to particular companies but to all products coming from Belarus," he said.

At the same time, Horzheyev noted that the ban will be lifted only after Ukrainian specialists conduct a thorough inspection of dairy enterprises in Belarus.

The ban on imports of meat was imposed due to a suspected outbreak of swine fever on the territory of Belarus.

Experts say that the prohibition of pork imports from Belarus is unlikely to have any effect on Ukraine – according to Ukraine's Agricultural Policy Ministry, this product is practically not imported into the country. However, the ban on imports of dairy products can significantly better the fate of Ukrainian cheese makers affected by Russia's ban on imports of their products as a serious competitor has been temporarily removed from the Ukrainian market. According to investment company ProAgro, in 2010 Belarus was the largest importer of butter and powdered milk in Ukraine. In these sectors, the Belarusian products stood for about 4%-5% of the market (in kind).

According to the Gorshenin Institute Political Programmes director **Yevhen Kurmashov**, a local trade conflict between Ukraine and Belarus may entail adverse consequences for relations between the Ukrainian authorities and all the members

of the Customs Union.

“By slapping a unilateral ban on imports of meat and dairy products from Belarus, Ukraine underestimates risks related to a possible reaction to this move by Belarus's partners in the Customs Union - Russia and Kazakhstan,” Kurmashov said. He suggested that along with the “Cheese War”, other economic restrictions may be applied to Ukraine as response measures from Russia and Kazakhstan.

“The Customs Union is not only an economic but also a political union. It is typical of political unions to protect its every member. So when the Ukrainian authorities unilaterally impose limitations on import of certain groups of commodities from Belarus, we should not forget that they actually confront all the members of the Customs Union,” Kurmashov said.

“This situation will serve a good indicator of whether the member states of the Customs Union are ready to protect their partners in the trade and economic union should one of the partners experience problems with a third country. Now Ukraine acts as this third party when it bans import of certain groups of commodities from Belarus,” Kurmashov explained.

“This situation is also a good possibility to receive an answer on 'what are the current functions of the Customs Union?' Is it a powerful trade and economic alliance where every country can count on support from the partners?” Kurmashov said. “If in this trade conflict Belarus is left on its own in the stand-off with the Ukrainian authorities, with a reasonable degree of probability it would be possible to suggest that no mechanisms of political or economic support between the member state

Customs Union threatens Ukraine with new trade restrictions

Belarus and Kazakhstan may impose duties on Ukrainian sugar in the near future.

In particular, the Association of Sugar Producers of the Customs Union of Russia, Belarus and Kazakhstan has sent an appeal to the Eurasian Economic Commission, requesting the agency to take measures that would prevent sugar supplies from Ukraine at low prices. The association demands fulfillment of the arrangement reached within the Customs Union on raising duties on sugar imports from Ukraine to 340 dollars. At the moment, this duty is effective only in Russia.

Russian ruble to remain reserve currency in Ukraine

The National Bank of Ukraine (NBU) has confirmed its intention to make the ruble a reserve currency.

“We are working to ensure that the issue could be conveniently solved for those banks that work with the ruble. We haven't made any changes, but we plan to make them,” NBU head **Serhiy Arbuzov** said on 29 February 2012.

Earlier, on 17 February 2012, it was reported that Naftohaz Ukrayiny state-run energy company has obtained the right to receive payments from Ukrainian consumers of natural gas in Russian rubles.

The NBU head also denied rumors about a decline in the volume of Ukraine's foreign currency reserves. “Actually, they haven't declined, and we have just liquidated IMF loans, and this is also linked to the deficit. So, the reserves are at the level we forecasted earlier,” he said.

On 1 February 2012, the NBU reported that it had repaid about 600m dollars to the International Monetary Fund (IMF).

Financial analyst **Erik Nayman** believes that the foreign currency reserves of the National Bank may reach a critical level of 25-26bn dollars by next autumn already. As he said, without an essential inflow of foreign direct investments and improvement in the commodity trade balance, the Ukrainian government “will have to make its choice next autumn – either to devalue the hryvnya or to look for some other resources alternative to IMF loans.”

According to the news and analysis portal Lb.ua, the IMF has decided to replace head of its mission in Ukraine, and a new representative may come to Ukraine in the near future to discuss the resumption of the stand-by program with Ukraine's authorities.

President's administration: Business climate improved in Ukraine. First deputy prime minister considering abolition of VAT exemptions

The Presidential Administration says the business environment has improved in Ukraine.

“Over the past two years, significant steps have been made to improve the business climate. This has become possible thanks to the persistent position of the head of state,” First Deputy Head of the Presidential Administration **Iryna Akimova** said on 28 February 2012. According to her, “other steps have also been made to reduce corruption.”

Earlier, head of the European Commission Delegation in Ukraine **Jose Manuel Pinto Teixeira** said that President **Viktor Yanukovych** failed to fulfill his promises he gave after the inauguration regarding improvements in the business climate and fight against corruption. According to him, among pressing issues are reimbursement of VAT, fiscal pressure and other factors.

At the same time, First Deputy Prime Minister **Valeriy Khoroshkovskyy** said that “the amount of VAT claims now exceeds the possibilities of the government as entire industries enjoy privileges.” In his opinion, this issue can be resolved only “when we eliminate all the benefits on this tax.”

Member of presidential entourage leaves country as tax agencies step up efforts to collect funds

Pro-presidential Party of Regions MP Yuriy Ivanyushchenko has left Ukraine.

The Forbes-Ukraine magazine reported that he did that after Kiev's Shevchenkivskyy district court had allowed tax agencies on 7 February 2012 to check the account sheets of his companies.

According to experts and mass media, Ivanyushchenko has been representing the interests of President **Yanukovych's** family over the past two years. In particular, a notorious company called Khlibinvestbud, which received the largest quotas for exporting grain in 2010-11, is linked to his name.

The editor-in-chief of the Ukrainian news and analysis website Lb.ua, **Sonya Koshkina**, argued in her most recent article that at the moment tax agencies stepped up their efforts to collect money from big business, including from businessmen with government connections. “There is an approximate sum for each of them which was underpaid to the budget in this or that tricky fashion... They are expecting to receive 1.6bn from one of the close friends, **Valeriy**

Khoroshkovskyy (the first deputy prime minister), and another billion from one of the leaders on the agricultural produce market. And so on. It is noteworthy that, as sources say, **Rinat Akhmetov's** companies are also on this provisional list although they have not started checking them," Koshkina wrote.

Ukraine's gas trader says negotiations should be conducted by presidents

The Ukrainian state-run oil and gas company Naftohaz Ukrayiny believes that the gas row can be resolved only by presidents.

"We have exhausted all the possibilities for further negotiations at our level. Now it will be continued between the heads of the two states," Naftohaz Ukrayiny's board director **Yevhen Bakulin** said on 2 March 2012.

He recalled once again that Ukraine believed at the moment that a fair price of Russian gas was 240-250 dollars per 1,000 cu.m. At the same time, Bakulin did not rule out that the Ukrainian gas transport system might be used in the reverse direction if Russia decides to significantly cut back on the volumes of gas transported through Ukraine to European countries.

Naftohaz Ukrayiny also said that it presented Gazprom with the documentary evidence that it had not siphoned off Russian gas intended for transit.

In his turn, Ukrainian Prime Minister **Mykola Azarov** confirmed the information that during his trip to Kiev, Russian speaker **Sergey Naryshkin** gave him a draft agreement envisioning a 10-percent gas price reduction.

During a roundtable held by Gorshenin Institute on 20 February 2012, experts concluded that no such draft agreement existed. You can learn more details on page 17.

Naftohaz Ukrayiny issuing bonds to pay for Russian natural gas

Naftohaz Ukrayiny has increased its authorized capital.

As the media reported citing the web portal of public procurement, from 22 February to 27 February, Naftohaz Ukrayiny sold domestic government loan bonds worth a total of 413m dollars to Ukreximbank, one of Ukraine's largest banks.

On 22 February 2012, the government decided to increase the authorized capital of Naftohaz Ukrayiny by 751m dollars through issuing government bonds. The national budget of 2012 earmarks 1.5bn dollars for increasing the gas monopoly's capital.

According to analysts of VTB Capital, the proceeds from the bonds' placement will be used for paying Russian natural gas bills.

In his article for the Dzerkalo Tyzhnya weekly (Mirror of the Week), **Ihor Maskalevych** says that at the moment Naftohaz Ukrayiny is actually bankrupt and exists only thanks to the government's massive injections of money into its authorized capital. "In the beginning of 2009, the statutory fund of Naftohaz Ukrayiny totaled about 5.56bn hryvnias (696m dollars), and after the current 'vaccination' worth 6bn [hryvnias], it has already reached 55.84bn hryvnias (6.99bn dollars). Moreover, 31.7bn hryvnias, or 4bn dollars, has been already invested under current president **Yanukovych**," the journalist says.

Senior banker of the EBRD **Paul Shapiro** believes that Naftohaz Ukrayiny's

losses are caused by the policy of the company's management, which prevents implementation of the required reforms.

At the same time, on 29 February 2012, the EBRD's Country Director for Ukraine, **André Küüsvek**, said that the EBRD and the European Investment Bank (EIB) have confirmed their intentions to assist Ukraine in upgrading its gas transport system and are ready to provide Naftohaz Ukrayiny with a loan of 308m dollars by the end of this year.

On the same day, President Yanukovich instructed the government to step up work on preparation and implementation of the projects for modernization of Ukraine's gas transport system under support of the EU and international financial institutions.

On 27 February 2012, it was reported by the media that four companies will participate in the tender for assessment of the Ukrainian gas transport system. Specifically, applications were submitted by Thomas & Simonova (Kyiv), Tuds & Pelts (New York), Baker Tilly – Ukraine (Kyiv), Ernst & Young (Kyiv).

Ukrainian banks that provide loans to state losing their credit ratings

On 1 March 2012, Moody's Investors Service has worsened the outlook on the long-term ratings of the Savings Banks of Ukraine (Oschadbank)

Particularly, the agency has changed to negative from stable the outlook on the bank's B2 long-term global local currency deposit and the B2 long-term global local currency debt ratings. Concurrently, Moody's downgraded the bank's long-term National Scale Rating to A3.ua from A2.ua.

The change in the outlook reflects Moody's concerns over the very high linkages between the bank's and the sovereign's financial standing, whilst the sovereign creditworthiness is under pressure. Moody's noted that top state-owned company credit exposure accounts for over 130% of the bank's regulatory capital. Moody's also observes the bank's high exposure to the government securities, which accounted for 60% of the bank's regulatory capital as at year-end 2011.

"Naftohaz Ukrayiny accounts for 50% of the bank's portfolio and regularly pays on its loans, but nobody knows what will happen in the future," business daily Kommersant Ukraina quoted an analyst of an investment company. "The portfolio also consists of loans provided to the alternative energy companies associated with **Andriy Klyuyev**, the secretary of the National Security and Defence Council, who is losing his political influence. So, perhaps, Moody's decision was related to that fact."

Naftohaz Ukrayiny selling natural gas at 138 dollars per 1,000 cu.m.

Ukraine is selling natural gas to the companies of Dmytro Firtash at 50% of the price of Russian gas.

As the news and analysis portal Lb.ua reported, citing the Newsletter of Public Procurement, Lvivhaz company, whose major shareholders are the companies of Firtash, on 23 February 2012, signed several agreements with Naftohaz Ukrayiny on supplies of 1.25bn cu.m. of gas for 173m dollars in 2012. This way, the average cost of contracted gas totals 138 dollars per thousand cubic meters.

Earlier, on 13 February 2012, Zaporizhhaz, which is also controlled by the

Firtash group, signed a contract for purchasing 1.92bn cu.m. of gas from Naftohaz Ukrayiny at 282 dollars per 1,000 cu.m..

Ukraine is now buying gas from Russia at 416 dollars per 1,000 cu.m..

Ukrainian energy minister urges Europe to turn down South Stream pipeline

Ukraine has criticized European support for the implementation of the South Stream project.

"Despite Ukraine's aspiration... to create appropriate conditions for ensuring European energy security, unfortunately, we are observing at present the actions by the EU countries and the Energy Community which are directed towards the implementation of the South Stream project and an active agreement of its parameters," Ukrainian Energy Minister **Yuriy Boyko** said in a letter addressed to the secretary of the Energy Community, **Slavtcho Neykov**.

The Ukrainian minister pointed at the most recent example of such actions: on 27 February 2012, Slovenia agreed with Russia's Gazprom the details of the South Stream gas pipeline going through its territory.

In response, the Energy Community head said that the secretariat was ready to actively discuss Ukrainian concerns outlined in Boyko's letter. He also noted that Ukraine should expect the organization's support with the issues which fell within its remit.

Ukraine will hold auction to sell two large shale gas fields in April 2012

Ukraine will sell shale gas deposits at an auction.

On 27 February 2012, the Ukrainian State Geological Service said that it planned to sell at an auction the rights to 70% of the products from the two shale gas deposits - the Yuzivske (in Donetsk and Kharkiv regions) and Oleske (Lviv Region) gas fields which contain natural gas, shale gas and other hydrocarbons. The agreements on the distribution of products from these gas fields remain in force for 50 years. The auction winners will be granted the right for no more than 70% of products, while Ukraine will retain no less than 15%. The deadline for submitting applications for the participation in the auction is 23 April 2012.

The mass media reported that the government included geological information into the auction documentation packages. It priced the Oleske gas field at 1.3m dollars and the Yuzivske gas field at 1.9m dollars.

The agency head, **Lyubomyr Honcharuk**, estimated that the volume of the gas deposits offered for sale would reach 7 trillion cu.m. of gas. He also said that the US Geological Service and Ukraine signed an agreement for a year and a half aimed at assessing the Ukrainian shale gas deposits.

On the same day, 27 February 2012, the Nadra Ukrayiny company's director, **Eduard Stavytskyy**, said that two companies will be set up jointly with the SPK-Heoservis company: the open joint-stock company Nadra Yuzivska and the open joint-stock company Nadra Oleska which will become in the future the parties to an agreement on the distribution of products extracted from the Yuzivske and Oleske gas fields. Stavytskyy stressed that the activity of the joint companies will be fully funded by the SPK-Heoservis company.

A tender for selecting Nadra Ukrayiny's partner was announced on 9 February

2012. SPK-Heoservis won it on 20 February. The Russian-British company TNK-BP believes that the tender was not carried out transparently.

The mass media reported that the founders of the SPK-Heoservis company, which was set up in 2008, were former employees of the scientific research institute Naukanaftohaz.

According to the information of the National Bank of Ukraine, the country can satisfy its energy demand with domestically produced fuel by 58%.

Vanco Prykerchenska looks forward to settling dispute with Ukraine in 2012. Government utters amicable agreement terms

Vanco Prykerchenska expects to sign an amicable agreement with the Ukrainian government in the first half of 2012.

Vanco Prykerchenska President **Jim Bown** said on 28 February 2012 that the arbitration with Ukraine may be finished as early as “within the next several months”. “There will be nor winners nor losers,” Bown said adding that after settling the amicable agreement, Vanco Prykerchenska plans to start survey of deposits near the city of Kerch on the Black Sea shelf.

The secretary of the interdisciplinary commission for setting up and implementing the agreement on product distribution **Volodymyr Ihnashchenko** said earlier that by signing the amicable agreement Vanco Prykerchenska would drop its earlier claims of 100m dollars towards Ukraine. According to Ihnashchenko, no amicable agreement will be signed until Ukraine receives a guarantee that Vanco Prykerchenska's stakeholders will not put forward any material claims to Ukraine.

In October 2007 Vanco Prykerchenska was issued a license for drilling of oil and gas on the Black Sea shelf, at the Prykerchenske oil and gas field. However, in April 2008 the Ukrainian Environment Protection Ministry cancelled the license issued to Vanco Prykerchenska. After that the company appealed to the International Court of Arbitration with a complaint against Ukraine.

In July 2010 Vanco Prykerchenska informed on the beginning of the negotiation process with the objective of signing an amicable agreement and suspension of the arbitration in the Stockholm court of arbitration.

In July 2011 the Ukrainian Cabinet of Ministers approved a draft of the amicable agreement with Vanco Prykerchenska.

Vanco Prykerchenska is equally owned by Vanco International (over 50% is concentrated by the Russian Lukoil group), DTEK Holdings Limited of Ukrainian business tycoon **Rinat Akhmetov**, Shadowlight Investments Limited of Russian tycoon **Yevgeniy Novitskiy** and Integrum Technologies Limited, with each owning 25%.

President Viktor Yanukovich makes Mezhyhirya his official residency

Mezhyhirya becomes official residency of President Viktor Yanukovich.

The Ukrainian president's press service said on 26 February 2012 that an office for the president's official meetings was opened at Yanukovich's official residency in the village of Novi Petrivtsi (also known as the Mezhyhirya mansion).

The decision to arrange an office close the head of the state's place of residence was caused by the need to return to work promptly at any time of the day, the presidential press service has said.

The term of the lease agreement for the office premises expires in 2020 with an option for prolongation. According to the agreement, the president will use for his official meetings three offices with the overall area of 128.8m².

Later, Party of Regions MP **Vadym Kolesnichenko** explained that setting up a workplace for President Yanukovich at his official residency Mezhyhirya is consistent with the European experience.

"As long as we strive for Europe, we follow European examples. Downing Street. The head of the Cabinet lives and works at the same place. The White House. The president lives at the same place where he works," Kolesnichenko said.

Mezhyhirya used to be a state property. However, in 2007, when Viktor Yanukovich was the Ukrainian Prime Minister, the status of Mezhyhirya was changed from a state residency to a private mansion.

Ukrainian media say that now the Mezhyhirya mansion is owned by three parties: President Viktor Yanukovich owns a land plot of 1.76 hectares, the Vidrodzhennya Ukrayiny [Ukraine's Renaissance] charity foundation leases 7.6 hectares and the Tantalit private company owns a land plot of 27 hectares. According to the Ukrayinska Pravda website, Tantalit is controlled by people who represent interests of Yanukovich's family.

New finance minister appointed in Ukraine

President Viktor Yanukovich appointed Yuriy Kolobov as finance minister on 28 February 2012.

Earlier, Kolobov worked as the deputy head of the National Bank of Ukraine.

A number of experts and media say that Yuriy Kolobov is closely connected to President Yanukovich's elder son **Oleksandr Yanukovich**. Kolobov himself denied any links to the president's family.

The post of the economics minister still remains vacant. A most likely candidate to fill this vacancy now is **Petro Poroshenko**.

Activist detained for distributing condoms with image of Ukrainian President Yanukovich goes on hunger strike

Detained activist Serhiy Melnychenko went on hunger strike on 27 February 2012 protesting against pressure on public activists in Ukraine.

In particular, Melnychenko demands cancellation of an allegedly illegal court's ruling and immediate release from custody of all participants in the "charitable handing out of a batch of condoms".

On 24 February 2012, the police in Kiev detained four activists for passing out for free condoms in blue and white boxes [the Party of Regions colours] with an image of a man resembling President **Viktor Yanukovich** on it. Later, the activists were sentenced to 15 days of arrest. The police charged them with holding an unauthorized rally.

The results of the public opinion poll conducted by the Gorshenin Institute in

March 2011 show that almost a half of the Ukrainian population, 45.3%, are ready to take part in protests.

Ukrainian Security Service jointly with Russian colleagues prevent attempt on Russian Premier Vladimir Putin

Terrorists plotting an attempt on Russian Prime Minister Vladimir Putin neutralized in Ukraine.

On 27 February 2012, Russian media reported that as a result of a joint operation the Ukrainian and Russian security services have prevented an attempt on Russian Prime Minister Vladimir Putin. Media reports say that the terrorists were planning a series of bomb blasts in Moscow immediately after the presidential election there. **Adam Osmayev** was called the organizer of an attempt. As of today, the Russian law enforcers forwarded a request for his extradition to the Ukrainian Prosecutor-General's office.

Many experts believe the information about a planned attempt on Prime Minister Vladimir Putin is a PR technology employed by Putin's campaign staff ahead of the presidential election.

Ukrainian defence minister meets his Russian counterpart in Crimea

A meeting between Ukrainian Defence Minister Dmytro Salamatin and his Russian counterpart Anatoliy Serdyukov took place in Ukraine's Crimea on 27 February 2012.

The Ukrainian Defence Ministry has said that the two ministers discussed "issues of bilateral cooperation in the defence, technical and social sectors". Some media reported, however, that the ministers also discussed replacement of the Russian Black Sea Fleet's naval ships with new ones and the lease of the NITKA deck-based aircraft training range located seven kilometres away from the town of Saki, on the bank of the Black Sea Kalamitskiy Bay.

Note:

"NITKA" (land-based aircraft test training complex) – unique special land-based test training complex constructed in the Soviet Union, simulating aircraft carrier deck and designed to train aircraft take-off and landing on the aircraft carrier. The complex is used for test flights of aircraft carriers of horizontal take-off and landing, as well as for the training of pilots. The Su-27KUB prototype was tested on the training area.

Ukrainian Foreign Ministry says nothing new in Kerch Strait border delimitation issue. Media mention Russia's new proposals

Ukraine and Russia still cannot delimitate the Kerch Strait

On 28 February 2012, the Ukrainian Foreign Ministry said that the Ukrainian-Russian negotiations regarding the delimitation of the sea border in the Kerch Strait still continue and so far there is no reason to speak of any "sudden" changes.

The key point of the negotiations is establishing a sea border line in the Kerch Strait.

Earlier the Dzerkalo Tyzhnya weekly with a reference to Ukrainian diplomats reported that the Russian party proposed "an agreeable option for delimitation of the Kerch Strait". The coordinates of the border line suggested by Russia only slightly differ to the Ukrainian variant. "Regretfully, no details of this novelty offer are yet available as the negotiations continue under high confidentiality arrangements. However, at the last meetings the Russians started speaking not

only about delimitation of the water area but also about details of the border line, about areas of responsibility," the weekly's publication says.

A draft of the new Ukrainian-Russian gas contract that Russian Duma speaker **Sergey Naryshkin** announced at a press conference on 20 February, does not exist, the participants of the round table discussion “Ukrainian-Russian Relations: what is left behind the scene?” have concluded.

Pro-presidential Party of Regions MP INNA BOHOSLOVSKA has said that there is no such document as a draft gas contract. “There is no contract as a document but the very fact that Naryshkin brought some proposals from the Russian Energy Ministry shows that Russia is really concerned with the status of the gas talks. This is very good as it confirms that the tactics of aggressive negotiations along with the tactics of waiting works for Ukraine now,” Bohoslovka said.

Opposition Our Ukraine – People's Self-Defence MP IRYNA HERASHCHENKO has said that Naryshkin made a reconnaissance visit to familiarize with the situation. She said however that the gas talks issue is a priority for both Ukrainian and Russian governments. “It would look very strange if the Ukrainian speaker brought an economic contract to any other country – making shoes is up to shoe-makers,” Herashchenko said.

Herashchenko also said that it was necessary to initial the EU Association Agreement before the presidential election in Russia on 4 March. “The project to set up the Euro-Asian Economic Union is the main geopolitical project of the Russian prime minister and, most likely, the next Russian president, Vladimir Putin. This is why the pressure on Ukraine after the election in Russia will increase. The government and opposition should unite to resist this pressure. The initialling of the EU Association Agreement should have been made before the election in Russia,” Herashchenko said.

NOMOS Centre director for economic programmes MYKHAYLO HONCHAR, commenting on the “Naryshkin's document”, has said that the status of this document should have been clarified as soon as media reported on signing sort of an agreement between Russia and Ukraine. “It may well be that this is only a protocol or a memorandum of understanding. Now we see that in fact there is no such document as a draft gas contract, as Naryshkin put it. Today we can only say again that Russians have never cancelled any of their earlier requirements that they have put forward to Ukraine at the gas contract negotiations,” Honchar said. Honchar also said that Ukraine should take a tougher stance at the negotiations with Russia. He said that in response to Russia's threat to stop supplying gas to Europe through the Ukrainian gas transport system Ukraine could easily refuse to import gas from Russia. “If Russia promises 'zero' cubic meters of gas through our gas transport system after the South Stream gas starts operating at its full capacity, we can easily promise to import 'zero' cubic meters of Russian gas,” Honchar said. He also said that by that time the European Union will reshape its gas market, new suppliers will appear and, probably, there will be no point in having the South Stream gas pipeline at all. “Notwithstanding the above, they will keep on building this pipeline, as the whole purpose of it is to serve as a 'kick-back pipeline,’” Honchar explained.

Honchar also said that the USA and Canada have recently started 13 projects to build liquefied natural gas plants with overall capacity of 176bn cu.m. per year. “It is currently planned to commission these plants in 2015-16. This liquefied gas will be mainly supplied to the European market. For instance, the overall export of Russian gas in 2011 was 150bn cu.m. Meanwhile, in Europe they are building a terminal to receive liquefied gas. Thus, it is possible to assume that in five years from now the situation on the European gas market will change significantly and projects like the

South Stream will be reconsidered to reduce their capacity. That is why the South Stream gas pipeline that will allegedly deprive Ukraine of its status of a gas transit country should be taken as nothing but a 'scare story' and we have to react to this story adequately," Honchar said.

Independent energy expert VOLODYMYR SAPRYKIN has said that the purpose of Naryshkin's statements regarding a new gas contract was to create an entourage for the visit "of the person not the last in the ranking of Russian officials" to Ukraine. "However, this visit brought no results for Ukraine, Saprykin said.

Saprykin also said that the fair price of the Russian gas for Ukraine should be the gas price for Germany minus 50-80 dollars, or 280-300 dollars per 1,000 cu.m. "Today the price of gas in Germany is 350 dollars, in the USA – 85 dollars, in Great Britain, in France... everywhere prices are lower than in Ukraine. This makes our economy non-competitive," Saprykin said.

Energy Studies Institute expert YURIY KOROLCHUK has said that Ukraine should not have hold itself aside from the negotiation between Russia and the European Union regarding the rules of the game on the European gas market. Commenting on the negotiations between Russia and the European Union regarding the provisions of the EU Third Energy Package, Korolchuk said that the Ukrainian leadership showed no interest in this process at all. "We are concentrated on achieving a technical objective – to receive a gas price discount, while Russia is looking for a strategic objective – they are interested in increasing gas supplies to the European market. In fact, the Ukrainian government now is just sitting and waiting for the outcomes of the dispute between Russia and the EU," Korolchuk said.

He said that Ukraine's current position will make the country to join the winning party eventually. "If the European Union reaches an agreement with Russia on its own terms, Ukraine may expect setting up a consortium to manage its gas transport system and retain 50% in its stake. However, if Russia manages to get less stringent provisions of the Third Energy Package, the consortium to manage our gas transport system will be set up on Russia's terms where all its stakeholders - Gazprom, Ukraine and the EU (meaning a gas company from the EU) – will receive a 33% stake each. This latter option is very disadvantageous for Ukraine," Korolchuk said.

Korolchuk also said that Ukraine should be more proactive in manifesting its position now by complying with the obligations it undertook when joined the EU Energy Community Treaty.

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