



Gorshenin *Weekly*

ISSUE #12 11/04/2011

Ukraine, EU continue
talks on free trade
area

Another round of the talks on setting up a free trade area (FTA) between Ukraine and the EU has been held in Brussels.

During the negotiations, the parties continued their discussion of institutional, general and concluding articles of an agreement. They also exchanged opinions regarding the prospects for reaching a deal on unresolved issues. Additionally, both parties reaffirmed their intention to complete the talks on signing an EU-Ukraine association agreement in 2011 and agreed to conduct the next round of negotiations in June 2011.

After the talks were finished, the Ukrainian deputy minister for economic development and trade, Valeriy Pyatnytsky, stated that Ukraine and the EU have made progress in three out of the five most difficult issues in the negotiations on setting up an FTA. According to him, the delegations managed to achieve progress in such key area as tariff quotas for agricultural produce, the liberalization of tariffs on the imports of used cars to Ukraine and the area of geographical names. Energy and export duties remain among unresolved issues.

Just to remind you, Ukrainian Prime Minister Mykola Azarov said earlier that the EU was ready to set up an FTA with Ukraine but that the conditions which it has proposed were not beneficial to Ukraine. In particular, the issue has to do with the restrictions imposed on Ukrainian agricultural producers.

In his address to Parliament, Ukrainian President Viktor Yanukovich stated that Ukraine plans to sign an association agreement and an FTA agreement with the EU in 2011. He added that Ukraine intended to develop cooperation with the Customs Union (CU) between Russia, Belarus and Kazakhstan. "I believe that the further development of relations with the CU will be grounded in a new agreement basis for treaties on free trade and perhaps a set of accords on cooperation, which uses the three-plus-one formula," Yanukovich said.

As the Ukrainian Foreign Ministry explained, the president's statement about the new "formula" of cooperation with the CU between Russia, Belarus and Kazakhstan did not clash with Ukraine's aspirations for EU integration, which remained a priority for Ukraine, but only attested to its desire to find all possible ways of trade and economic partnership with its eastern neighbors. For his part, Ukrainian Foreign Minister Kostyantyn Hryshchenko said that Ukraine's cooperation with the CU would not interfere with its talks with the EU on setting up an FTA.

Just to remind you, the Cabinet's special envoy for cooperation with Russia and the state members of the Commonwealth of Independent States (CIS), Valeriy Muntiyan, said earlier that Ukraine should immediately enter the CU between Russia, Belarus and Kazakhstan. "Ukraine should join the protocol on establishing free trade with Russia, Belarus and Kazakhstan as soon as in July, while the decision on integration into the CU has to be made in the first half of 2011," he stated. For its part, the Ukrainian Foreign Ministry denied the information that Ukraine is conducting talks on joining the CU with Russia, Belarus and Kazakhstan.

Gorshenin Institute expert Volodymyr Zastava called Muntiyan's statement on Ukraine's speedy entrance into the CU a provocation. «Since we know that an agreement with the EU on a free trade area does not envision that Ukraine joins the Customs Union between Russia, Belarus and Kazakhstan, the given statement should be considered a provocation. It is intended to derail the negotiations on setting up a free trade area, which, according to the information at our disposal, should be completed in the near future,» the expert noted. According to Zastava,

«the fact that a Ukrainian official is an instrument of such a provocation seems rather weird.» and he noted that the current situation is extremely favorable for setting up an FTA with the EU. “At present, the interests of the Ukrainian government in the issue of European integration and, in particular, setting up an FTA with the EU, correspond with those of big Ukrainian business. We can say that the current government has a historic opportunity to shift the development of the state on a new quality level and boost actual cooperation between Ukraine and Europe. Furthermore, the stance of European officials is also unambiguous. They fully support Ukraine's bid for integration into the EU. According to the information at our disposal, the negotiations on setting up an FTA could be completed in the near future,” the Gorshenin Institute expert noted.

Russian premier to visit Kiev, Ukraine hopes for revised gas accords

Russian Prime Minister Vladimir Putin will pay an official visit to Ukraine on 12 April. During the visit, Putin will participate in a meeting of the Ukrainian-Russian intergovernmental committee on economic cooperation.

According to the press service of the Russian prime minister, while in Kiev, Putin will conduct talks on the most pressing issues of bilateral cooperation, including in such vital areas as trade and economic relations, transportation, the implementation of joint programs in the aviation industry and the space sector.

For his part, Ukrainian Prime Minister Azarov stated that he intended to discuss with Putin the issue of revising the accords on gas deliveries. “Taking into consideration that we plan to hold a meeting of the Ukrainian-Russian intergovernmental committee on economic cooperation next week, I tasked First Prime Minister Andriy Klyuyev, who is specifically responsible for the Russian direction, and Energy and Coal Industry Minister Yuriy Boyko to propose additional justification to revise the agreement on gas delivery with Russia,” Azarov said.

According to experts and the mass media, during his visit, the Russian prime minister will attempt to dissuade Ukraine from setting up an FTA with the EU. In exchange for Ukraine's agreement to join the CU between Russia, Belarus and Kazakhstan, Putin is presumably ready to propose it a compensation package.

It is noteworthy that the Gazprom deputy director, Valeriy Golubev, stated at the beginning of April 2011 that Ukraine could save 5.6bn euros a year if it entered the CU between Russia, Belarus and Kazakhstan.

Ukraine's banking system among world's worst

Ukrainian banking system is among the weakest in the world, according to a report by the Standard & Poor's (S&P) international credit rating agency. “We believe that under international standards, the risk level of Ukraine's banking system is rather high. Proceeding from the assessment of the country risks, which reflects strong and weak points of the banking system of every country in comparison with other states, we place Ukraine in the last and weakest group 10. In addition to Ukraine, other countries that belong to this group are Venezuela, Jamaica and Bolivia,” the S&P report said.

The S&P experts singled out the following problems with the Ukrainian banking system: a considerable concentration of business (in certain counteragents and sectors), significant dollarization of operations, a weak legal basis for the protection of rights of creditors, insufficiently strict standards for giving loans and risk management and the regulation of the sector and banking monitoring which lag

behind the development of the market.

Just a reminder that the international rating agency Fitch Ratings reported earlier that Ukrainian banks have not yet managed to tackle the consequences of the crisis and considerably shrink the share of problem loans.

Ukraine's inflation to reach 11.1 percent in 2011

According to the Economic Development and Trade Ministry, the average rate of inflation in Ukraine may reach 11.1 percent in 2011. It also estimated that real GDP will be approximately 4.6 per cent in 2011.

At the same time, the S&P credit rating agency forecast is that GDP will grow by 3.8 percent in Ukraine in 2011. According to its estimates, the inflation rate in Ukraine will be 10% in 2011. Among the factors that adversely affect the economic development of the country the S&P experts listed corruption, bureaucracy, the large size of the shadow economy, which is estimated at 50 percent, and unprotected property rights. The financial support provided to Ukraine by the International Monetary Fund (IMF) plays a stabilizing role, the S&P noted.

Naftohaz Ukrayiny loses customs monopoly on gas imports

Ukraine has stripped Naftohaz Ukrayiny of its monopoly on customs clearance of gas imports.

In particular, the Ukrainian Cabinet adopted a resolution which revoked Naftohaz Ukrayiny's monopoly right on customs clearance of the natural gas which is transported to the Ukrainian gas transportation system for the needs of domestic customers.

Just to remind you, the ban on customs clearance was authorized by a Cabinet resolution and initiated by former Prime Minister Yuliya Tymoshenko in March 2008.

The deputy director of the Ukrainian Energy and Coal Industry Ministry's directorate of oil, gas and oil refining industry, Kostyantyn Borodyn, said that the Cabinet resolution of 2008 has been rescinded as a step towards the liberalization of the gas market, which was envisaged by the law "On the functioning of the natural gas market." According to him, the revocation of the right to monopoly could be a positive signal for European financial institutes and will thus allow the attraction of additional funds for the upgrading of the Ukrainian gas transportation system. "As regards the situation on the Ukrainian gas market, this resolution will not substantially change it," he opined.

"The agreement with Gazprom, which remains in force until 2019, implies that only it can sell Russian gas in Ukraine," Borodyn concluded.

A member of the parliamentary committee on the fuel and energy complex, Oleksandr Hudyma, believes that an attempt by the current government to return the UkrHazEnerho company to the Ukrainian gas market is the chief reason behind the revocation of Naftohaz Ukrayiny's monopoly right.

Just to remind you, the UkrHazEnerho company was set up in 2006 by Naftohaz Ukrayiny and the RosUkrEnergo company, which is owned by Ukrainian businessman Dmytro Firtash and the Russia-based Gazprom company. For two years, from 2006 to 2008, UkrHazEnerho held a monopoly on the import of gas to Ukraine and also was the only one to deliver gas for Ukrainian industrial consumers.

It is noteworthy that according to the Ukrainian mass media Energy and Coal Industry Minister Boyko is presumably linked to the business of Firtash.

Court reschedules preliminary hearings of Makarenko-Didenko case to 14 April 2011

A court has rescheduled the case on the seizure of gas from the RosUkrEnergo company in 2009.

In particular, the Kiev Pecherskyi district court postponed the preliminary hearings of the case of charges brought against the former head of the Ukrainian State Customs Service, Anatoliy Makarenko, and the former first deputy board chairman of the Naftohaz Ukrayiny company, Ihor Didenko, until 14 April 2011 since the suspects were not brought to the hearing.

It is worth mentioning that Didenko and Makarenko were detained in the summer of 2010. They are accused of power abuse and inflicting substantial losses to the state as a result of the seizure of 11bn cu.m of gas from the RosUkrEnergo company in 2009.

A reminder that in June 2010, the Stockholm Arbitrary Court handed down a verdict in RosUkrEnergo's favor, ruling that Naftohaz Ukrayiny should return the previously seized volume of gas and pay RosUkrEnergo a fine foreseen by the contract in the form of 11bn cu.m of gas.

Party of Regions intends to cancel Naftohaz Ukrayiny's debts

The government intends to cancel the debts of Naftohaz Ukrayiny and its subsidiaries with the support of the Party of Regions, an MP of the opposition Yuliya Tymoshenko Bloc, Andriy Pavlovskyy, said.

According to him, the corresponding draft bills have been submitted to the Ukrainian Parliament by MPs of the Party of Regions. "Under draft law No 8284, it is proposed to cancel 35bn hryvnyas (3.08bn dollars) of debts accrued by Naftohaz Ukrayiny, while draft law No 8285 proposes to cancel 26bn hryvnyas (2.29bn euros) of debt to the Ukrainian state budget," Pavlovskyy said.

At the same time, he noted that electricity tariffs for the public were raised by 15 percent on 1 April 2011. "This is at a time when billions [of debt] owned by the companies of well known oligarchs will be cancelled," he said.

It is worth noting that the MPs submitted a draft bill on amending the provisions of the Tax Code that deal with the cancellation of debt to the state budget. Among other things, the draft law envisages the cancellation of debts which Naftohaz Ukrayiny and its subsidiaries Haz Ukrayiny, Ukrtransgaz, Ukrhazvydobutok and Chornomornaftohaz owe to the state budget.

According to several experts, such "bleaching" of a company balance sheet generally means its preparation for sale. It is worth noting that President Yanukovich previously expressed support for the sale of part of shares in Naftohaz Ukrayiny at a Western stock exchange.

Just to remind you, in 2010, Naftohaz Ukrayiny suffered the biggest ever revenue loss of 1.89bn euros. The majority of the loss was accumulated during the last quarter of 2010, when the company handed over 5bn cu.m out of 12.1bn cu.m. of gas to RosUkrEnergo, following the ruling of the Stockholm Arbitrary court

Ukraine expects EU, Russia to take part in modernization of gas transit system

Ukrainian Prime Minister Azarov has said that the European Union (EU) should be involved in the modernization of the Ukrainian gas transit system. Azarov said that the EU shall be the most interested party in the modernization of the gas transit system. Azarov also said that Ukraine has all the means for

maintaining the gas transit system in an operable state. Azarov noted that the cost of the modernization project is 1.5 billion euros and, according to him, "it would be good if at least a half of these expenses were borne by European countries". He added that the issue of modernization of the Ukrainian gas transit system will be raised during Russian Prime Minister Putin's visit to Ukraine on 12 April 2011. Azarov also said that Russia's leadership never proposed Ukraine to stop negotiations with the EU regarding the free trade area in exchange for revision of the gas price formula.

Ukrainian President Yanukovich said for his part that Ukraine shall propose forms of cooperation in the energy sector to involve both Russian and European capital in the modernization and development of the gas transit system.

Some media reported that in the EU they are ready to finance the development of a feasibility study and environmental impact assessment of the modernization project, but the EU does not intend to take part in the modernization of the Ukrainian gas transit system.

The EU representatives are quoted as saying that the modernization project shall be financed by international finance institutions, like the World Bank, the European Investment Bank and the European Bank for Reconstruction and Development. According to media reports, one of the key conditions for credit financing of the modernization project is the reorganization of the Naftohaz Ukrayiny – the company shall be divided into two parts, namely: a gas distribution company to supply gas to consumers and a gas transit company to transport Russian gas.

Earlier Energy and Coal Mining Industry Minister Yuriy Boyko said that Ukraine expects to receive first funds for the modernization of the gas transit system from international financing organizations before the end of 2011.

President considers opening Ukrainian land market to foreigners

Ukrainian President Yanukovich has declared an intention to provide equal conditions for access to the land market for domestic and foreign business. Yanukovich recalled that according to the Programme of Economic Reforms for 2010-14, a transparent market of agricultural land shall be established in Ukraine before the end of 2012. "For this purpose, first of all, the required regulatory framework will be established", – Yanukovich said. He also said that now the requirements of these laws are being discussed in the Ukrainian society. The two most important laws in the field of land management are planned to be discussed and approved before the end of the first half of the year: "On the state land cadastre" and "On the land market".

Yanukovich said that the moratorium on sale and purchase of agricultural land hampers the development of national agriculture. The ban makes it impossible to establish efficient agricultural farming communities based on the concentration of land ownership.

A reminder that, the Ukrainian Parliament refused to extend the moratorium on land sale which is due to expire at the beginning of 2012.

We note that the former Ukrainian economics minister, Bohdan Danylyshyn, said that inspection of quality of Ukrainian agricultural lands shows their enhanced degradation. "Measures to improve the fertility of land are occasional, that is why in 1990s almost no new valuable, highly fertile lands were added. The falling fertility of land, inaccuracies with land improvement, large volumes and speed of land

degradation are the reasons for the harvesting every year of 10–12 million tonnes of crops less than could be, if calculations are made in grain”, Danylyshyn said.

Law on grain export
quotas approved in
Ukraine

The Ukrainian Parliament has approved the law on auction sales of grain export quotas.

The draft law suggests establishing licensing procedures for export of grain and grain products and allowing the Cabinet to sell quotas at auction.

The document also makes provisions to use the funds from sales of quotas as governmental support to agriculture, in particular, to compensate producers for planting buckwheat – 30 per cent, and other crops – 70 per cent.

The law comes into effect from the date of its publication and is valid till 1 July 2011.

According to the director of Ukrzernoprom Agro, Eugene Leng, the draft law on auction sales of grain export quotas leads to transfer of cash from the pockets of agricultural producers to the pockets of public officials. “The world market establishes the price of grain, and that is why the cost of the quotas that an exporter has to pay will simply be deducted from the purchase price. Consequently, agricultural producers will lose billions of hryvnias. The law includes a provision that the funds from auction sales of quotas shall be used to support agriculture. In other words this means that bureaucrats will have additional funds at their disposal for distribution at their own discretion. International surveys suggest that market regulation like this is counterproductive in a country with a high level of corruption. Why take the money from farmers for subsequent re-distribution? The answer to this question is evident”, – Leng said.

Leng also said that the document also makes provisions for licensing of export of grain and grain products, which limits trade even further. “This is the next step. However, it looks quite logical as a continuation of the course started by the Ukrainian Cabinet’s agricultural sector started last summer”, Leng said.

A reminder that, the Ukrainian Cabinet first introduced grain export quoting from early October 2010 till 31 December 2010. However, at the end of last year the quoting period was extended till 31 March 2011. During that period, the quotas were distributed twice and both times the way it was done was heavily criticized by the market players: many companies did not manage to timely receive from the Ministry of Agricultural Policy the documents required to submit an application to receive grain export quotas.

Let us also remind that the grain trader Nibulon contested in court the unfair distribution of grain export quotas.

Most of the quotas were received by the Khib Ukrayiny [Ukrainian Bread] grain trader, which is allegedly controlled by Agricultural Policy Minister Mykola Prisyazhnyuk.

Ukrainian Law Makers
Approve New
Corruption Fighting
Law

The Ukrainian Parliament has approved in the final reading the president’s draft law “On principles of preventing and combating corruption in Ukraine”. The following articles of the president’s law were reviewed and approved in the final reading: Article 1 (main definitions), Article 11 (clearance procedures for candidates to positions related to implementation of functions of the government or local authorities), Article 12 (financial control), and also the section of the law entitled “Final provisions”.

Ukrainian Parliamentary First Deputy Speaker Adam Martynyuk said the law will come into effect on 1 July 2011 except for Article 12 (financial control), which will take effect on 1 January 2012.

Politicians and experts say that Article 12 (financial control), whose coming in force was postponed will 1 January 2012, obliges not only civil servants, but also by members of their families, to declare their expenses. "This means that officials may be free to use income from corrupt actions for one more year", member of parliament Arseniy Yatsenyuk said.

Ukrainian Presidential
Aide Maryna
Stavniychuk Predicts
Publication of Election
Law Soon

The draft law on election to Parliament will be made public soon, an aide to the Ukrainian president, head of the president administration's main directorate for constitutional and legal modernization, member of the Venice Commission, Maryna Stavniychuk, has said. "The future draft law on election to Parliament also will be definitely submitted to Venice Commission for review and issue of recommendations. Also, the issues related to preparations for the coming election are also very important: training of organizers of the election, observers and other participants in the election campaign. It is important to create conditions where an election would take place in an environment of free competition based on the principles of democracy", Stavniychuk said.

A reminder that Member of the Venice Commission Maryna Stavniychuk was appointed to work in the Ukrainian presidential administration on 1 April 2011.

Let us also remind that Maryna Stavniychuk was considered an opposition politician for a long time: she often criticized the government, including after the local election in October 2010. Earlier Maryna Stavniychuk was part of former President Viktor Yushchenko's inner circle: in particular, she worked as a deputy head of the presidential secretariat. Experts believe that this staffing policy demonstrates that the Party of Regions has started preparations for the upcoming parliamentary election.

Ukrainian President's
Chief-of-Staff: Second
Part of Administrative
Reform Started

Head of Presidential Administration Serhiy Lyovochkin has said that the second part of administrative reform started in Ukraine. Lyovochkin said that staff reduction in regional state administrations will start soon in order to optimize their performance. "These staff reductions will take place in the framework of the second part of administrative reform. The president planned it to take place in the second and third quarters of 2011", - Lyovochkin said. He also said that the number of deputies to the head of regional state administrations will be reduced within the framework of the reform: each head of a regional state administration will have one first deputy and two deputies.

A reminder that, President Viktor Yanukovich earlier signed the order on reorganizing the Presidential Administration and the National Security and Defence Council.

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