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INTERNATIONAL POLITICAL

UKRAINE-RUSSIA

Ukrainian president visits Russia on 15 May 2012.

Ukrainian President **Viktor Yanukovich** has met with his Russian counterpart **Vladimir Putin** in Moscow, where he also participated in an informal summit of the Commonwealth of Independent States (CIS).

After the negotiations with Putin, Yanukovich told Ukrainian journalists about the topics which had been raised during their conversation.

In particular, the presidents agreed to hold a meeting of the Ukrainian-Russian intergovernmental commission in July 2012.

Furthermore, they discussed the Customs Union (CU) of Russia, Belarus and Kazakhstan. Yanukovich said that Ukraine might benefit at this stage from cooperation with the CU states in several sectors such as energy, machine building and high tech.

Speaking about gas, Yanukovich stressed that the Russian gas price was too high for Ukraine. He added that Ukraine still insisted on the setting up of a trilateral gas consortium, which would include Ukraine, Russia and the EU.

Additionally, the Ukrainian president said that Ukraine and Russia “have closely approached the decision on the Kerch-Yenikal strait in the issue of the delimitation of the maritime border”.

The prospects for an agreement on a free trade area (FTA) with the CIS were also on the agenda during the talks. Putin expressed the hope that Ukraine would ratify the agreement, which had been signed by Ukrainian Prime Minister **Mykola Azarov** on behalf of the country's government in October 2011. In response, Yanukovich said that Ukraine would ratify this document in the nearest future.

The Lb.ua news and analysis website reported that Ukrainian ambassador to Russia **Volodymyr Yelchenko** explained prior to the meeting of the two presidents that the ratification was delayed because a revision of certain provisions of the agreement was still under way.

Later, on 17 May 2012, the Ukrainian first deputy prime minister, **Valeriy Khoroshkovskyy**, said that the agreement was still undergoing interdepartmental procedures. For his part, the secretary of the Ukrainian National Security and Defence Council, **Andriy Klyuyev**, said that Ukraine counted on the setting up of an FTA with the CIS states without exceptions and limitations for the country. It should be noted that the existing draft of the agreement contains a number of restrictions for Ukrainian products.

In Moscow Yanukovich also asked the summit participants to postpone Ukraine's chairmanship in the CIS from 2013 to 2014. He explained his request by the fact that Ukraine will preside over meetings of the Organization for Security and Cooperation in Europe (OSCE) next year.

Commenting on the outcome of the president's visit to Moscow, international policy expert **Hryhoriy Perepelytsya** said that the Ukrainian government needed to devise a strategy towards, first and foremost, the CU and the Eurasian Economic Community (EurAsEC) and also towards the gas negotiations with Russia. In his opinion, after Putin's return to power, Russia continues to realize the plans to reintegrate the CIS states. "The Customs Union and the Eurasian Economic Community are among important economic instruments for implementing such policy," Perepelytsya said.

Gorshenin Institute's expert **Volodymyr Zastava** shares this opinion. In his article for the Russian newspaper *Nezavisimaya Gazeta*, he wrote that the current office term of the new Russian president would be devoted to the strengthening of Russia's geopolitical position through the construction of the so called Eurasian Union. "Russia will be dragging Ukraine into its integration processes regardless of the will of the latter," the expert believes.

You can find the full text of the article on page 17.

Russia has laid out its requirements for the setting up of a gas transport consortium.

On 17 May 2012, the first deputy head of the Russian State Duma committee and the president of the Russian Gas Organization, **Valeriy Yazev**, said that Russia agreed to set up a gas transport consortium with Ukraine and the EU. At the same time, he stressed that the consortium should not only manage but also own the Ukrainian gas transport system (GTS).

On 15 May 2012, Ukrainian President **Viktor Yanukovich** said in Moscow that the issue of setting up the consortium should be discussed after the Ukrainian GTS undergoes a valuation. This task is currently undertaken by the Baker Tilly Ukraine company, which plans to complete it in August 2012.

On 16 May 2012, the head of the Ukrainian state-owned energy company Naftohaz Ukrayiny, **Yevhen Bakulin**, said that in 2012 the company planned to buy 27bn cu.m. of Russian gas for an annual average price of 440 dollars per 1,000 cu.m.

The same day, 16 May 2012, Ukrainian Prime Minister **Mykola Azarov** admitted in Brussels that the Kharkiv agreements, which were signed in April 2010, had not in fact given Ukraine a gas discount. He added that the discount was counted as part of a fee for the stationing of the Russian Black Sea Fleet in Crimea.

The director of the Institute for Energy Research, **Dmytro Marunych**, believes that the negotiations with Russia are unlikely to result in specific agreements in the nearest future. In order to implement the scenario proposed by Yazev, it is necessary to pass a number of laws which would make it possible to sell the Ukrainian GTS, the expert explained.

In her article for the Ukrainian analytical weekly *Dzerkalo Tyzhnya*, journalist **Alla Yeremenko** wrote that the government was currently drawing up a project for the restructuring of Naftohaz Ukrayiny. The project envisions that Naftohaz Ukrayiny's subsidiaries *Ukrtransgaz* and *Ukrhazvydobutok* will be turned into public companies and "then, even without buying a complete package of shares, ideologists will manage [the firms] as they wish – without any control by state agencies and the public".

Yeremenko also reminded the newspaper readers that the largest Ukrainian oil company Ukrnafta had been reorganized in the same fashion. Currently, the state owns the controlling stake in the company, but the majority stake owner – the financial and industrial group Privat – and a member of the so called Family group, according to Dzerkalo Tyzhnya, manage the firm and receive profits.

UKRAINE-EU

On 15-16 May, Ukrainian Prime Minister Mykola Azarov visited Brussels.

In Brussels Azarov participated in a meeting of the EU-Ukrainian cooperation council. The Ukrainian prime minister also held a meeting with the president of the EU Parliament, **Martin Schulz**.

On 17 May 2012, Azarov said in opening remarks at a government meeting that during his visit to Brussels the EU high representative for foreign affairs and security policy, **Catherine Ashton**, the EU commissioner for enlargement and neighborhood policy, **Stefan Fule**, and the currently presiding in the EU Danish foreign minister, **Villy Sovndal**, noted the significant progress that Ukraine had achieved on its path towards European integration.

Azarov also said that no-one of those he had officially met during the Brussels trip on 15-16 May 2012 had been able to present evidence of repression in Ukraine.

“For instance, when simply asked what kind of repression they were talking about, as the opposition organizes some campaigns almost daily and no-one suffered because of this, no one is afraid, none of the people I talked to could answer,” the Ukrainian prime minister said.

Furthermore, Azarov quoted EU's Fule as saying that the issue of boycotting Euro 2012 football championship in Ukraine had not been discussed by foreign ministers during a meeting of the EU Council.

The Ukrainian analytical weekly Dzerkalo Tyzhnya reported that on 16 May 2012 Azarov said in Brussels that calls to boycott Euro 2012 by certain European politicians had already affected an influx of tourists to Ukraine. At the same time, the weekly added that the prime minister had asked a rhetorical question about those who should be responsible for this: “Are we supposed to file a lawsuit with the Stockholm arbitration [Arbitration Institute of the Stockholm Chamber of Commerce]?”

EU leaders have not met Ukrainian premier.

On 15-16 May 2012, Ukrainian Prime Minister **Mykola Azarov** did not have a meeting with President of the EU Commission **Jose Manuel Barroso** and President of the European Council **Herman Van Rompuy**.

The press service of the Ukrainian prime minister said that such meetings had not been planned.

Ukrainian Foreign Minister **Mykola Hryshchenko** explained that Barroso was attending a meeting of G8 during Azarov's visit to Brussels, while Van Rompuy was busy with solving the difficult financial problems which the EU is currently facing.

At the same time, the Ukrainian magazine Fokus quoted its source in European diplomatic circles as saying that the EU leaders had decided not to appear in public with representatives of the Ukrainian government.

Ukraine has demanded respect and called on the EU to determine its position towards it. Europe has expressed its intention to continue dialogue with Ukraine.

On 14 May 2012, Ukrainian President **Viktor Yanukovych** said in Donetsk that Ukraine was sharing the concern of the global community over the situation with former Prime Minister **Yuliya Tymoshenko**. He also stressed that Kiev paid attention to critical comments regarding this issue. At the same time, he added that he was against Ukraine's humiliation.

"It is very important that they do not humiliate us," he stated, stressing that Ukraine will not let this happen.

On 18 May 2012, during the international debate "Ukraine-EU on the Rubicon", which was held on the high level, Ukrainian Foreign Minister **Kostyantyn Hryshchenko** said that the EU should determine its stance on Ukraine.

"We are often criticized that Ukraine should decide on with whom it is – with the EU or Russia. However, sometimes there is an impression that it would not hurt the EU to determine where it would like to see Ukraine," he said.

At the same time, the vice-president of the EU Parliament, **Jacek Protasiewicz**, who was present during the debate, said that "the EU harbored too many hopes about Ukraine to relinquish them so fast. It is a very simple step to freeze relations... We insist on dialogue".

At the same time, after meeting Tymoshenko's allies **Oleksandr Turchynov** and **Hryhorii Nemyrya** in Kiev the same day, Protasiewicz said: "Now I see the absence of a desire to find a political solution to the problems which distance Ukraine from the EU."

The Lb.ua news and analysis website reported that on 19 May 2012, Protasiewicz visited Tymoshenko in Kharkiv's hospital.

The European Parliament's Social-Democratic faction has voiced the possibility of ending cooperation with the Ukrainian pro-presidential Party of Regions.

On 15 May 2012, the head of the Progressive Alliance of Socialists and Democrats faction in the European Parliament, **Hannes Swoboda**, said that the political force was considering the possibility of ending political cooperation with the Party of Regions.

The same day, 15 May 2012, Ukrainian Prime Minister **Mykola Azarov** personally invited Swoboda to a pre-election summit of the party, which is scheduled to take place in Kiev on 31 July 2012.

In the opinion of the director of Gorshenin Institute's political programmes, **Yevhen Kurmashov**, foreign policy problems with Europe will undermine Ukraine's position in negotiations with Russia.

The EU has appointed new envoy to Ukraine.

On 16 May 2012, the press service of the EU office in Ukraine said that **Jan Tombinski** has been appointed as new envoy to Ukraine. He is expected to start his term in office in September 2012.

Current EU envoy to Ukraine **Jose Manuel Pinto Teixeira** will remain on his post until summer 2012.

UKRAINE-USA

The USA is concerned over the situation in Ukraine and has called on the government to allow the opposition leaders to run in the upcoming parliamentary election.

On 14 May 2012, US ambassador to Ukraine **John Tefft** and the deputy assistant secretary of state in the Bureau of Democracy, Human Rights and Labor at the United States Department of State, **Thomas Melia**, visited former Prime Minister Yuliya Tymoshenko in a Kharkiv hospital.

After their visit the US embassy publicized a statement in which it called on the Ukrainian government to release the opposition leaders from jail.

“The US government continues to call for release of Tymoshenko and other former members of government from prison and for a complete re-establishment of their civil and political rights,” the statement said.

Later, on 17 May 2012, Melia said during a meeting with representatives of the Ukrainian public and media that Washington was against Ukraine's isolation. However, he stressed that the leaders of the Ukrainian opposition who are currently in jail should participate in the parliamentary election scheduled for October 2012. According to him, a fair election will put Ukraine on a returning path to Europe and will boost its ties with the USA.

Furthermore, Melia added that Ukraine was losing attractiveness to foreign investors due to politically motivated persecution.

On 17 May 2012, the US Congress held a hearing on the topic “The future election in Ukraine: A turning point”. The head of the US Helsinki Committee **Christopher Smith** said during the hearing that the October parliamentary election would become a litmus test of Ukraine's democracy.

Tymoshenko's daughter **Yevheniya** who participated in the hearing via video conference call urged US politicians to continue pressurizing Kiev to release her mother from jail.

“We are asking you to please continue putting pressure,” Yevheniya said.

U.S. officials looking into rapid growth of wealth of Ukrainian president's son

“During my April visit, I heard a new term – familialization – and that corruption in Ukraine becomes personal, and it involves members of the country's first family,” President of Freedom House **David Kramer** said in the U.S. Congress on 17 May.

“According to reports, over the last year one of the president's sons increased his fortune by 18 times. The question is arising – how did he manage to accumulate such wealth?” Kramer noted.

In an article for Dzerkalo Tyzhnya weekly dated 19 May 2012, journalist **Tetyana Sylina** writes that “over the last few months a very impressive number of members of the Egmont Group of Financial Intelligence Units [this group unites financial intelligence units of more than 120 countries, including Ukraine. Its main task is to fight against laundering of criminal capitals. The group members must share relevant information with each other] have been actively engaged in identifying assets of the 'family' [of President **Viktor Yanukovich**] around the world.”

DOMESTIC POLITICAL

UKRAINIAN AUTHORITIES

Parliament expands president's powers in forming budget policy

The Ukrainian parliament on 17 May 2012 approved the law submitted by president providing for main directions in the budget policy and forecast for the state budget to be developed based on the president's annual address to the parliament. The implementation of the annual president's address now also becomes mandatory to the central bodies of executive power and local state administrations.

According to the head of the Centre for political and legal reforms, **Ihor Kolyushko**, the approval of the said law is yet another step strengthening the president's influence on all branches of power in the country. “In fact, this move can be treated as a preventive measure in case if no pro-presidential majority is formed in parliament or there is no unanimity in the Cabinet,” Kolyushko said.

Ukrainian president sets up Constitutional Assembly

President Viktor Yanukovich signed an order on 17 May 2012 to set up the Constitutional Assembly whose main objective would be developing draft laws on amendments to the Ukrainian constitution. Former President **Leonid Kravchuk** was appointed chairman of the Constitutional Assembly.

The first deputy head of the opposition Yuliya Tymoshenko Bloc's parliamentary faction, **Serhiy Sobolev**, has said that setting up the Constitutional Assembly following the president's order contradicts the constitution. Sobolev said that an institution like this should be set up in parliament only, but not under the president.

On 20 May 2012 the leader of the Front for Change party, Arseniy Yatsenyuk, said that the opposition refused taking part in the “Constitutional Assembly named after President Viktor Yanukovich” as the sole purpose of the Assembly was to ensure Yanukovich's reelection as president in parliament in 2015.

President Viktor Yanukovich signs new Criminal Procedure Code

President Viktor Yanukovich has signed the new Ukrainian Criminal Procedure

Code on 14 May 2012. The code will take effect six months after its publication.

The Council of Europe's experts say that "the code will help to depart from the repetitive and cumbersome Soviet type criminal procedure".

The US ambassador to Ukraine, **John Tefft**, has said that the USA is ready to provide Ukraine with assistance in an education campaign to prosecutors and judges training them on how to use the new Criminal Procedure Code.

MP of the opposition Our Ukraine-People's Self-Defence Bloc, **Volodymyr Aryev**, said however that every positive aspect of the code is neutralized by numerous negative aspects.

UKRAINIAN OPPOSITION

A Ukrainian court has postponed a hearing of former Prime Minister Yuliya Tymoshenko's appeal till 26 June 2012.

The Ukrainian Supreme Specialized Court for Civil and Criminal Cases took such a decision on 15 May 2012 following a request from prosecutors due to the inability of Tymoshenko, who is undergoing medical treatment, to be present at court hearings.

In his turn, Tymoshenko's lawyer **Serhiy Vlasenko** said that his defendant had submitted a request to the court to consider her case in her absence. He also said that previously courts had ruled in Tymoshenko's case without her presence in a court chamber.

Vlasenko believes that the postponement of the hearing is a deliberate attempt to drag out the consideration of the case and especially its submission to the European Court of Human Rights (ECHR). In this regard, he expressed the intention to file a lawsuit with the ECHR without waiting for a final verdict of Ukrainian courts.

The Ukrainian Prosecutor-General's Office (PGO) pointed out that such an intention was not legally sound.

On 16 May 2012, Ukrainian Prime Minister **Mykola Azarov** said after meeting President of the European Parliament **Martin Schulz** in Brussels that the EU would send its lawyers to Ukraine to participate in the hearing of Tymoshenko's appeal.

Later, the press service of the president of the EU Parliament clarified that the issue had to do not only with the criminal case launched against Tymoshenko over the 2009 gas contracts with Russian but also with other cases opened against her.

Tymoshenko's lawyers believe that the actions of the Ukrainian Health Ministry present an additional reason for filing a lawsuit with the ECHR. On 11 May 2012, the ministry publicized confidential information about the former prime minister's health condition.

Ukrainian Prosecutor-General **Viktor Pshonka** said on 15 May 2012 that the claims about the violations of Tymoshenko's human rights were made up.

On 17 May 2012, the Kiev Pecherskyy Court dismissed a motion of Tymoshenko's defence on the inactivity of the PGO in an investigation into possible torture of the former prime minister.

On 21 May 2012, a court is scheduled to hear a criminal case launched against Tymoshenko over the activity of the corporation United Energy Systems of Ukraine. A prosecutor's office said that the hearing should be postponed.

Ukraine cannot provide former Prime Minister Yuliya Tymoshenko with appropriate medical treatment. The Ukrainian government says it is impossible to send her abroad.

On 18 May 2012, the director of the Berlin clinic Charite **Karl-Max Einhopol** said that Ukraine was unable to provide the appropriate medical treatment for the former prime minister. At the same time, he could not clarify if the jailed opposition leader was in need of a surgery.

The same day, 18 May 2012, the Ukrainian state-owned TV channel UT1 broadcast an interview with Ukrainian President **Viktor Yanukovych**, in which he said that the Ukrainian legislation did not allow prisoners to receive medical treatment abroad.

On 17 May 2012, Ukrainian ombudsman **Valeriya Lutkovska** said that a transfer of a Ukrainian prisoner to a hospital abroad violated the constitution.

Earlier, on 11 May 2012, an affiliated MP **Taras Chornovil** registered in parliament a draft law which allows Ukrainian prisoners to undergo medical treatment abroad.

At the same time, the head of the pro-presidential parliamentary faction Party of Regions, **Oleksandr Yefremov**, said that there was no need to adopt such a law "for the sake of one person".

Opposition MP: Yevhen Shcherban's son gave fake testimony against Tymoshenko in exchange for lifting murder charges

MP of the opposition Our Ukraine-People's Self-Defence bloc, **Hennadiy Moskal**, said on 17 May 2012 that **Ruslan Shcherban** is involved in the killing of resident of Donetsk, whose surname was **Drozdov** and whose body was found in February 2012

"From reliable sources in the Interior Ministry I learned that Drozdov was murdered by Shcherban in the forest while hunting," Moskal said.

According to Moskal, to avoid criminal responsibility Shcherban was forced to publish slanderous statements accusing Yuliya Tymoshenko of being involved in the contract killing of his father, Donetsk businessman **Yevhen Shcherban**, in 1996. (Ruslan Shcherban said that Tymoshenko was involved in the assassination of his father on 4 April 2012).

The Prosecutor-General's Office denied Moskal's statements on 18 May 2012.

Appeals court upholds verdict on former Interior Minister Yuriy Lutsenko's case

The Kiev Court of Appeals on 16 May 2012 ruled to remain unchanged the verdict sentencing former Interior Minister Yuriy Lutsenko to four years in prison. Lutsenko's defence lawyers said they would lodge an appeal to the Court of Appeal's ruling.

The Lb.ua news and analysis website reports that Lutsenko's wife, **Iryna**, said at the debates in court that the medical examination confirmed her husband's diagnosis - viral hepatitis TTV – as well as other diseases. According to Iryna Lutsenko, this may be a reason for releasing her husband from custody.

Commenting on the fact, expert **Volodymyr Budkevych** has said that the verdict on Lutsenko's case was approved following the old criminal legislation, so Lutsenko has a good chance to challenge his verdict at the European Court for Human Rights.

HUMAN RIGHTS

Ex-ombudsman Karpachova leaves Ukraine, reportedly for Moscow

On 18 May 2012, Ukrayinska Pravda news and analysis website reported that former ombudsman **Nina Karpachova** is in Russia. According to the website, Karpachova left for Moscow after the prosecutor's office launched investigation into the publication of photos of Yuliya Tymoshenko's bruises by several mass media.

At the same time, on 18 May 2012, Radio Liberty reported citing an informed source that Karpachova was on vacation in the Crimea.

On 15 May 2012, MP **Serhiy Sobolev** of the Yuliya Tymoshenko Bloc (YTB) announced that ex-ombudsman left the territory of Ukraine.

One day later, 16 May 2012, head of the YTB parliamentary faction **Andriy Kozhemyakin** said that a criminal case was launched against the ex-ombudsman.

The press office of the prosecutor's office in Kyiv denied the statements by the opposition.

MP **Volodymyr Oliylyk** of the Party of Regions said that the criminal case was opened not against the former ombudsman. According to him, the proceedings were launched based on her filings to the Prosecutor General's Office with request to check the alleged beating of ex-Premier **Yuliya Tymoshenko**.

On 4 May 2012, Prosecutor-General **Viktor Pshonka** said that Karpachova falsified an expert opinion on the injuries inflicted on Tymoshenko by the Kachanivska prison's personnel.

Parliament bans politicians from criticizing authorities

On 17 May 2012 the Ukrainian parliament approved the law prohibiting members of parliament and local councilors from criticizing the authorities' actions. The law also forbids public officials to accept donations.

Members of the opposition said that the law cuts their rights. "Elections all over the world are financed through donations. If the law prohibits criticizing authorities and accepting donations, we will have difficulties with managing the election campaign," MP of the Our Ukraine-People's Self-Defence Bloc, **Vyacheslav Koval**, has said.

Authorities persecute businessmen for supporting opposition

The leader of the Front for Change party, **Arseniy Yatsenyuk**, said on 17 May 2012 that the authorities persecute businessmen who provide support to the united opposition.

"I know that at the Presidential Administration and in the Security Service of Ukraine (SBU) they have compiled a list including about 500 individuals. This list includes names of those who already feel sympathetic towards the united opposition and are ready to provide support to it," Yatsenyuk said.

Yatsenyuk said the list includes names of not just businessmen, but also media owners and even village or district councilors.

Prosecutor's office searches for author of scandalous documentary about Lukyanivske remand centre

The Kiev Prosecutor's Office asked the TVi channel on 16 May 2012 to provide information on the location of journalist **Kostyantyn Usov** who made a documentary on life of the detainees in the Lukyanivske remand centre in Kiev. The Prosecutor's Office searches for Usov to perform investigation actions with his involvement.

Parliament refused admitting deportation of Crimean Tatars in 1944

The Ukrainian parliament on 16 May 2012 failed to approve a law admitting deportation of Crimean Tatars in May 1944. The author of the draft law, MP of the opposition Our Ukraine-People's Self-Defence Bloc, and leader of Crimean Tatars Majlis, **Mustafa Dzhemilyov**, has said the objective of the law was to regulate legal aspects of returning Tatars back to Crimea.

Ukrainian President's aide, Andriy Portnov, demands sacking judge for giving suspended sentence to Party of Regions MP's son charged with murder

An advisor to the Ukrainian President and member of the Supreme Council of Justice, **Andriy Portnov**, has demanded to dismiss the judge of the Baryshivka district court in Kiev Region, **Volodymyr Yeremenko**. In his appeal to the Supreme Council of Justice Portnov said that Yeremenko breached the oath when approved a verdict in **Serhiy Demishkan's** case.

On 31 January 2012 Serhiy Demishkan was declared guilty of kidnapping, torturing and cruel murder of his business partner, **Vasyl Kryvozub**. Nevertheless, Demishkan received a suspended sentence.

Serhiy Demishkan is a son of state roads construction company Ukravtodor's board chairman, member of the Party of Regions, **Volodymyr Demishkan**. The latter is being often described in media as a close friend of President **Viktor Yanukovich**.

The mass media reported that the spouse of Ukrainian tycoon is attempting to receive UK citizenship.

It seems that the wife of Ukrainian tycoon and MP of the Party of Regions **Rinat Akhmetov, Liliya**, intends to become a UK citizen. One can draw such a conclusion from a copy of the email which MP of the Party of Regions **Yuriy Voropayev** held in his hands in parliament. A correspondent of the Lb.ua news and analysis website managed to take a picture of it.

The email was addressed to a person named Liliya Mykolayivna. In essence, it explains requirements for receiving a UK citizenship.

Prior to 2003, Voropayev was the head of the legal department of the SCM corporation owned by Akhmetov.

We would like to note that Akhmetov's both sons are studying in the UK. The wife of the tycoon is named **Liliya Mykolayivna Akhmetova**.

ECONOMICS

FIGURES OF THE WEEK

In the first quarter of 2012, foreign direct investment (FDI) in Ukraine totaled 885.1m dollars, which is 4.4% down year on year (925.7m dollars in January-March 2011).

The top three investors into Ukraine were Cyprus with 13.662bn dollars, Germany with 7.468bn dollars, and the Netherlands with 4.907bn dollars. Russia took the fourth place with 3.661bn dollars of FDI in Ukraine.

Over January-March 2012, the negative balance of foreign trade in goods totaled 2.91bn dollars.

In 2008-2011, national budget outlays for the Euro 2012 preparations reached a total of 5.2bn dollars.

ENERGY MARKET

Lviv region authorities question legality of granting gas production rights to Chevron

On 15 May 2012, the Lviv regional council called illegal the allocation of the

Olesko gas area to the American company Chevron. The council members said the local authorities were not invited to join a commission that determined the winner of the gas production tender, which was an obvious violation of the law.

The Lviv regional councilors made a respective appeal to President **Viktor Yanukovich** and the Prosecutor-General's Office of Ukraine.

On 10 May 2012, the government named Chevron the winner in the tender for the right to extract gas at the Olesko gas area in Lviv Region, and the British-Dutch company Royal Dutch Shell to develop the Yuzovka gas field (Donetsk and Kharkiv regions).

Geologists estimate gas reserves at the Yuzovka gas field at 2 trillion cu. m., and at the Olesko gas area up to 1.5 trillion cu.m.

Environment Minister **Eduard Stavvtskyy** believes that the development of these two fields would take 30 years and require 50-70bn dollars of investment.

At the same time, according to **Anders Aslund**, an economics expert for Eastern Europe, the project for the development of shale gas areas in Ukraine by Chevron and Shell can become a victim of corruption in the country, and would bring benefits to a small circle of oligarchs and produce only small amounts of fuel.

Vice-President of the Gorshenin Institute **Oleksiy Leshchenko** said that Ukraine takes the fourth place in Europe in terms of shale gas reserves, and production of shale gas under the current conditions will be undeniably profitable. "If we speak about the economic feasibility, even with production costs of 200 dollars per 1,000 cu.m, it is very profitable to extract shale gas, bearing in mind that we pay more than 400 dollars per 1,000 cu.m. on the last contract with Gazprom," the expert said.

Ukraine puts into operation new drilling rig on Black Sea shelf

On 16 May 2012, the state-owned company Chernomornaftohaz reported that it brought into operation one of the two floating drilling rigs purchased in 2011. The rig will develop the Black Sea shelf.

It is expected that first gas from the field will be supplied to the mainland in October-November 2012.

After Ukraine purchased the drilling rig in the spring of 2011, the Dzerkalo Tyzhnya weekly claimed that the Ukrainian authorities acquired it at an overstated price – about 400m dollar – while its market price was 240-250m dollars.

On 17 May 2012, MP **Serhiy Vlasenko** of the Yuliya Tymoshenko Bloc said that **Yuliya Tymoshenko** asked the Financial Action Task Force (FATF) to launch investigation into acts of corruption during the purchase of the drilling rigs.

At the same time, on 18 May 2012, the Kommersant Ukraina business daily published a report by the American company Halliburton which evaluated the drilling rig purchased by Ukraine at 392m dollars. In such a way, the U.S. experts confirmed that the price paid by Ukraine was reasonable.

BUSINESS

Tax police open criminal case against Roshen company controlled by Economics Minister Petro Poroshenko

The Ukrainian tax police have taken interest in the confectionery corporation Roshen controlled by Minister of Economics Petro Poroshenko. According to the Ukrayinska Pravda news and analysis website, the tax police claim that in 2010 Roshen's executives illegally applied for a tax credit worth 86.56 thousand dollars to unlawfully receive VAT refunds from the state budget. On 23 January 2012, the tax police opened a criminal case.

On 11 May 2012, the court upheld the lawfulness of the criminal proceedings launched into this case.

**UKRAINIAN POLITICIANS SEE NO BENEFIT FROM
ECONOMIC UNION WITH RUSSIA**

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European politicians are stepping up criticism of the Ukrainian authorities and some of them even openly boycott official Kiev. This complicates Ukraine's difficult geopolitical situation even more. At the same time, Vladimir Putin has become the new Russian president, which means that Russia's pressure on Ukraine will only be ramped up. A logical question arises: how will the Ukrainian government behave in this complex situation?

The fact that Russia is once again headed by Vladimir Putin definitely does not bode well for Ukraine. As we learned from various sources, including public ones, over the next six years in office, the Russian president intends to mostly concentrate on foreign policy. His “obsession” is the so-called “unification of Russian lands”. For example, Russia intends to enhance its geopolitical status by means of setting up the Eurasian Union – a political and economic association, alternative to the European Union. For this reason, there is no doubt that Russia will strive to drag Ukraine into its integration projects.

Furthermore, Vladimir Putin is currently in need of quick and effective breakthroughs and accomplishments in foreign policy. And Ukraine, which depends on Russian energy and economy, fits very well for the realization of these goals. That is why it is pointless to discuss a decrease in the price of Russian gas in the nearest future since Russia will not make such concessions. Furthermore, even if the countries manage to strike a deal on the sale of the Ukrainian gas transport system to Russia's gas monopoly Gazprom, it is most likely that Russia will start to dictate new conditions. It understands that the USA and Europe are growing more irritated with Ukraine, which means that the country has no allies in its negotiations with Russia.

However, this does not mean that Ukraine is ready to make concessions if the situation deteriorates. Official Kiev will continue to behave as unpredictably and inconsistently as it has been recently. In order to understand this conduct, one needs to know the only thing: all Ukrainian foreign policy, in fact, boils down to maneuvering between Brussels and Moscow, and tactics have replaced strategy. In other words, Ukraine produces maneuvers for the sake of maneuvers. Gorshenin Institute's experts came to this conclusion over a year ago and it explains a lot.

For example, it explains why Ukraine has not ratified a free trade agreement with the CIS, which Ukrainian Prime Minister Mykola Azarov signed as a matter of urgency during a summit of the CIS leaders in Russia's St Petersburg last year. At the same time, this agreement has not even been submitted to the Ukrainian parliament, which puzzles Ukrainian politicians. Hence, an MP of the opposition Yuliya Tymoshenko Bloc parliamentary faction, Serhiy Teryokhin, has recently accused Prime Minister Mykola Azarov of exceeding his authority when he signed the free trade agreement. The politician demanded that the Ukrainian prime minister face criminal charges for this under the same article which was used to convict former Ukrainian Prime Minister Yuliya Tymoshenko.

Gorshenin Institute polled Ukrainian MPs. Among other questions, the respondents were asked: Are you familiar with the text of the free trade agreement with the CIS which was signed by Azarov? The poll suggested that 22 percent of MPs were familiar with the text of the agreement. At the same time, lawmakers from various factions admitted that only a few of them had seen the text in full, while those lawmakers who claimed that they were familiar with the text of the agreement knew about its content only from the words of their party leadership.

It should be pointed out that the Ukrainian prime minister signed the CIS free trade agreement right before Ukraine-EU summit in December 2011, during which the parties intended to initial an agreement on a free trade area with the EU. This agreement was not initialed during the summit even though many European experts stated earlier that the free trade area deal with Ukraine was in 95 per cent an economic issue and that European partners were sufficiently interested in signing and initialing of this document. Yet, the actions of the Ukrainian government started to prompt more criticism from and stir discontent of European politicians. For this reason, by hastily signing the free trade agreement with the CIS, official Kiev wanted to demonstrate to Brussels that Ukraine had an alternative to an economic union with the EU. For example, such a union can be set up with the CIS countries.

However, the fact that the Ukrainian prime minister signed the agreement does not mean that Ukraine intends to ratify it. Furthermore, many actions and statements by high-ranking Ukrainian officials in fact devalued the signing of this document by the prime minister.

Such inconsistent behavior of official Kiev became an unpleasant surprise for the speaker of the Russian parliament's lower chamber, Sergey Naryshkin, who was certain that the ratification of the CIS free trade agreement would take place simultaneously in Russia and Ukraine. He said this at a meeting with the Ukrainian president during his official visit. The Ukrainian government told Russia the same day that Ukraine was not ready and would not ratify this agreement in the nearest future. This position was voiced by the head of the pro-presidential Party of Regions parliamentary faction, Serhiy Yefremov.

The results of the sociological survey conducted among Ukrainian MPs by Gorshenin Institute confirm this as well. The majority of lawmakers said that they did not support the ratification of the CIS free trade agreement.

Even though Russia and other CIS countries are Ukraine's biggest trading partners, this situation demonstrates that Ukrainian politicians do not recognize direct economic benefits from the creation of this economic space.

The poll of Ukrainian MPs also indirectly confirms that the country's political elites are afraid of a huge probability of losing Ukraine's economic sovereignty if the country joins the CIS free trade area.

Ukrainian politicians entertain serious doubts that as a member of a free trade area with the CIS, Ukraine will not be able to effectively protect its rights if

«trade wars» or economic disputes with the countries of the Customs Union (of Russia, Belarus and Kazakhstan) happen again.

As a forecast of the future developments, one can assume that Ukraine will continue its manoeuvres even though it is running out of space for them. This may happen despite the possibility of a real political boycott by Europe and Russia might exert real economic pressure, which would be a catastrophe for Ukraine's export-oriented economy.

Currently, there is no final answer to the question whether it makes sense for Ukraine to join a free trade area with the CIS. At the same time, there is no doubt that Ukraine will reap benefits from Russia's quick entry into the WTO. This will give Kiev an opportunity to settle economic disputes with Moscow in independent arbitration courts, which is a serious impediment to any repetition of the «trade wars» in which Russia and Ukraine have been very recently involved.

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