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Ukrainian president appoints first Deputy Prime Minister Andriy Klyuyev as secretary of National Security and Defence Council

Ukrainian President Viktor Yanukovich has again reshuffled the country's top leadership.

On 14 February 2012, the president dismissed **Andriy Klyuyev** from the post of first deputy prime minister and economy minister and appointed him as secretary of the National Security and Defence Council (NSDC).

Rayisa Bohatyryova, who served as the NSDC secretary was appointed deputy prime minister and health minister.

Introducing Klyuyev to the NSDC staff, Yanukovich said that the newly appointed secretary was tasked with the development of the state security sector amid modern challenges. He expressed hope that Klyuyev will coordinate the work of the law-enforcement agencies and special services to fulfill these tasks.

Klyuyev's transfer to the post of the NSDC secretary stirred a heated debate in the political and expert circles. In particular, pundits and politicians are puzzled by the reasons for such a reshuffle, by Klyuyev's new responsibilities and by a potential candidate for the post of first deputy prime minister.

In her article for the Dzerkalo Tyzhnya weekly, **Yuliya Mostovaya** listed several reasons for Klyuyev's transfer to a new post. According to Mostovaya, when the opinion of the Russian prime minister was still mattered to Yanukovich, Klyuyev managed to have an argument with **Vladimir Putin**. «The antipathy [between Klyuyev and Putin] was rooted in the dispute over a stake in [Ukraine's] Prominvestbank which was absorbed by Vneshekonombank Rossii.» Later, Klyuyev submitted to parliament a draft law which sanctioned a change of the form of ownership of the Ukrainian gas transport system. Additionally, he ordered to submit for ratification a free trade agreement with the Commonwealth of Independent States, signed by Ukrainian Prime Minister **Mykola Azarov**, and which was not planned by the president.

Furthermore, Mostovaya pointed out that there were concerns regarding Klyuyev's use of the funds allocated by the EU for developing alternative energy sources.

According to Mostovaya, Klyuyev clashed with newly appointed Finance Minister **Valeriy Khoroshkovskyy** during negotiations with the IMF in Washington.

We would like to note that the opposition Yuliya Tymoshenko Bloc believes that Klyuyev's transfer to a new position can be explained by the recent parliamentary «tape scandal», which has to do with an alleged attempt by the progovernment party to bribe MPs.

At the same time, many experts said that the staff decision taken by the president is a victory of the RosUkrEnergo influence group over the so called «Donetsk clan». Klyuyev's appointment as the NSDC secretary is «an honorable exile».

According to the Gorshenin Institute expert **Volodymyr Zastava**, the so-called «Russian lobby» has been gaining strength in Ukraine recently. «The appointments of the new chairman of the Security Service of Ukraine and the new defence minister, who both have certain links with Russia, follow the same logic», Zastava said. «When Klyuyev was transferred to the National Security and Defence Council, the position of the first deputy prime minister in charge of the fuel and energy issues became vacant. The new Finance Minister Khoroshkovskyy may fill this vacancy, as he has a positive history of relations with both big Russian

business and the Russian government. It is worth recalling a story when Yanukovich personally asked Khoroshkovskyy to solve the “gas problem” and that the Russian Prime Minister Putin described Khoroshkovskyy as a negotiator convenient to Moscow”. Zastava also said that the recent appointments mainly strengthen personal positions of President Viktor Yanukovich: “Many reasons can be sought to justify Yanukovich's recent staffing decisions. However, one thing is clear: all these appointments are aimed at strengthening the president's personal powers. Any anticipated future appointments will follow the same logic.”

Writing for the Ukrainian news and analysis website Lb.ua, its editor-in-chief **Sonya Koshkina** opined that the new post will allow Klyuyev to actively prepare for the upcoming parliamentary election, as he the one in charge of electoral campaigns in the pro-presidential Party of Regions.

«This is the acme of skill — 'to deliver the right result' not during the campaign but even before it has kicked off. Let's assume that one can arrange things in such a way that by the time the campaign officially starts, all the potential 'independent' candidates are either behind bars or emigrated,» Koshkina wrote. To this end, in the author's opinion, Klyuyev will be able to use the country's governmental agencies.

Furthermore, Koshkina did not rule out that the parliamentary election might be cancelled by, for example, declaring a state of emergency, which is in the scope of the NSDC.

The majority of experts also agree that Klyuyev's chief task will be to ensure the necessary election outcome.

At the same time, the question with a candidate for the post of first deputy prime minister remains open.

Some think that Finance Minister **Valeriy Khoroshkovskyy**, who is believed to be representing the interests of the RosUkrEnergo group, and the head of the National Bank of Ukraine, **Serhiy Arbuzov**, who is believed to be loyal to the president and his family, are the most likely candidates for the post at the moment.

On 17 February 2012, Prime Minister Azarov said that he will propose to the president a candidate for the post of his first deputy within the next few days.

**Mass media say
premier no longer
able to control Finance
Ministry**

The newly appointed Finance Minister Khoroshkovskyy intends to implement financial policy independantly from Prime Minister Azarov.

The Ukrainian weekly Dzerkalo Tyzhnya said that Khoroshkovskyy submitted to the prime minister a proposal to dismiss heads of three major financial agencies, whose work is coordinated by the government via the finance minister.

More specifically, Khoroshkovskyy proposed to sack the head of the State Financial Inspectorate, **Petro Andriyiv**, the head of the State Treasury, **Serhiy Kharchenko**, and the head of the State Financial Monitoring, **Serhiy Hurzhiy**.

Azarov has not signed the proposal yet. The Dzerkalo Tyzhnya weekly also said that over the weekend (11-12 February 2012), the Finance Ministry which used to be on the two top floors of the government building on Hrushevskoho Street moved to a new building on Mezhyhirska Street.

According to Dzerkalo Tyzhnya, one cannot enter the new ministry's office using an ID card of the Ukrainian cabinet or the government secretariat. One needs to order a different ID card. Such a system permits to monitor communication between the ministry's employees and its visitors, controlling the issues raised by 'visitors', the weekly said.

Prosecutor-General's Office of Ukraine refuses to investigate parliamentary corruption scandal**The Prosecutor-General's Office of Ukraine (PGO) has no intention to investigate an alleged attempt to bribe MPs in parliament.**

Prosecutor-General **Viktor Pshonka** said that his agency received statements from parliamentary speaker **Volodymyr Lytvyn** and from MPs **Roman Zabzalyuk** of the Yuliya Tymoshenko Bloc (YTB) parliamentary faction and the head of the parliamentary faction Reforms for the Future, **Ihor Rybakov**.

Pshonka said that the PGO will not investigate these statements. «This is not the PGO's procedural activity, this is a moral issue,» he said, adding that the MPs can resolve the issues of bribery and slander in court.

The prosecutor-general also noted that the response to the MPs was ready and that they will receive it in the nearest future.

Earlier, **Lytvyn** asked the PGO to carry out a comprehensive investigation into a possible case of bribing the MPs.

It was reported that on 8 February 2012, Zabzalyuk, who left **Yuliya Tymoshenko's** bloc to enter the pro-government parliamentary faction Reforms for the Future last year, publicized audio tapes on which a person with the voice resembling that of the leader of the Reforms for the Future faction, MP Rybakov, proposed thousands of dollars to Zabzalyuk for backing the president's interests: voting for necessary draft laws, selecting candidates loyal to the Party of Regions to participate in elections in western Ukraine and arranging for «pro-government people» to become members of electoral commissions.

Zabzalyuk gave assurances that he had received 450,000 dollars from Rybakov to leave the YTB parliamentary faction. he was also offered a 20,000-dollar monthly salary.

The parliamentary faction Reforms for the Future acknowledged that it had given Zabzalyuk 100,000 dollars for medical treatment. However, it denied all the accusations, calling them slanderous.

Ukrayinsky Tyzhden magazine not available for sale after publishing materials about corruption in parliament**The recent issue of a Ukrainian publication has been partially withdrawn from sale.**

The Ukrainian website Telekritika reported that on 17 February 2012 the most recent issue of the Ukrayinsky Tyzhden magazine had been withdrawn from sale.

The Ukrayinsky Tyzhden website did not even have a preview of issue No 7 for 17-23 February 2012.

The website's editor-in-chief, **Dmytro Krapyvenko**, explained that the issue was not printed due to technical reasons and that the next issue of the magazine will be available next week.

At the same time, the printing house which publishes the Ukrayinskyy Tyzhden magazine said that the most recent issue was printed on 15 February 2012.

We learned that the cover of the magazine's most recent issue previewed articles about the 2012 election and gave quotations from a conversation between MPs Ihor Rybakov and Roman Zabzalyuk, which pertained to the tape scandal.

Two articles in the magazine were devoted to the government reshuffles, a rising influence of the presidential family and the use of administrative resources, manipulation and rigging during the 2012 election, which is confirmed by Zabzalyuk's tapes.

These articles were not posted on the magazine's website either.

Court re-affirms limited time frame for Tymoshenko to read materials of new case. Court to consider appeal over «gas case»

Ukrainian opposition leader and former Prime Minister Tymoshenko has been denied a request to extend the deadline for reading the materials of the new criminal case.

The Ukrainian news and analysis website Lb.ua said that on 16 February 2012 Kharkiv Region's appeals court ruled that the previous ruling which limited the amount of time available for Tymoshenko to familiarize herself with the materials of the criminal case launched over the alleged fraud of the corporation United Energy Systems of Ukraine (UESU) remained valid.

On 9 February 2012, Kharkiv's Kiev district court ruled that 28 March 2012 is the deadline for Tymoshenko to read the materials of this criminal case.

The Security Service of Ukraine (SBU) believes that Tymoshenko and her lawyers intentionally drag out the process of reading the materials of the UESU case.

At the same time, Tymoshenko's lawyer **Oleksandr Plakhotnyuk** said that the Highest Specialized Court of Ukraine requested the Kiev Pechersky court to provide materials of the gas case, which demonstrates that the former prime minister's appeal over the verdict will be considered. «After they [the materials] are submitted, the date of considering the appeal should be established within a month,» he said.

On 11 October 2011, Kiev's Pechersky court jailed Tymoshenko for seven years for exceeding her authority when she signed the gas contracts with Russia in 2009.

Tymoshenko's medical examination provokes new scandal

Tymoshenko has given her lawyer Serhiy Vlasenko a written agreement to publicize the diagnosis established by foreign doctors.

Vlasenko said that the Ukrainian Health Ministry distorted the conclusions which the foreign doctors drew after examining the former prime minister.

He also stated that he was ready to publicize Tymoshenko's diagnosis as soon as he decides that the time is right.

Tymoshenko's two-day medical examination carried out by an international medical commission and Ukrainian doctors in the Kachanivska prison was completed late on 15 February 2012. On 16 February 2012, the representatives of the Ukrainian part of the commission told journalists during a specially organized news conference that a consensus was reached regarding Tymoshenko's health

condition. In particular, the foreign doctors confirmed the conclusions earlier made by the Ukrainian specialists. The foreign experts also agreed on the treatment methods applied earlier.

Tymoshenko's supporters were outraged by the statements of the Ukrainian doctors.

New materials regarding Tymoshenko's lawsuit against Dmytro Firtash become available

Tymoshenko's lawyers presented new information about the lawsuit filed against Ukrainian tycoon Dmytro Firtash.

Former prime minister's lawyer **Kenneth McCallion** said that he submitted to a New York court the documents which confirm that Ukrainian officials laundered substantial sums of money through the USA. At the same time, he clarified that the issue has to do with the specific names and accounts through which the money had been laundered. Hence, according to him, this case falls under the US jurisdiction.

On 26 April 2011, Tymoshenko filed a lawsuit on behalf of the Ukrainian people against Dmytro Firtash with a US district court in Manhattan. In the lawsuit, she accused a number of unnamed individuals and companies (the so-called John Doe) of deceiving Ukrainian citizens by means of manipulating the ruling of the Arbitration Institute of the Stockholm Chamber of Commerce, which obliged the Ukrainian state-run oil and gas trader Naftohaz Ukrayiny to return 12.1bn cu.m. of gas to the RosUkrEnergo company.

Earlier, Vlasenko talked about one more person involved in the case, US citizen **Paul Manafort**, who works as a consultant to businessman Firtash and to a number of other Ukrainian high-profile politicians. In particular, the head of the Ukrainian presidential administration, Serhiy Lyovochkin, Energy Minister Yuriy **Boyko**, President Viktor Yanukovich and others are said to use the services of this consultant. «Paul Manafort ensured that the money of these people was invested into the US economy,» Tymoshenko's lawyer explained.

European leaders let Ukraine know that association agreement depends on Tymoshenko's case. Party of Regions says it depends on parliamentary election

The future relations between Ukraine and the European Union (EU) will depend on Tymoshenko's case.

In particular, EU Commissioner for Enlargement and Neighborhood Policy **Stefan Fule** said that abusing the judiciary for political goals the way it is happening in Tymoshenko's case and a number of other political cases imperils the chances of an association agreement between the EU and Ukraine. «This is not what we expect from a country with European aspirations, from a country which aspires to sign the most promising agreement on which the EU has held negotiations with its partners.»

For his part, the deputy head of the parliamentary committee for international affairs, Party of Regions MP **Leonid Kozhara** said that the fate of the association agreement with the EU depends on how democratic a parliamentary election will be and not on whether former government officials are free or behind bars. According to him, the agreement will be initialled in February-March of 2012. «Prime Minister Mykola Azarov should visit Brussels in March. Perhaps, we will be able to initial the agreement by that moment,» he said.

According to the information circulated by the mass media, the deputy head of the opposition Fatherland party, **Hryhoriy Nemyrya**, said that European politicians did not support the idea proposed by the opposition about making the so-called «list of undesirable guests» in Europe which would include the Ukrainian president, his

family members and representatives of the government. He reportedly received this information from Polish Foreign Minister **Radoslaw Sikorski**.

U.S. official names condition for Ukraine to obtain IMF loan. World Bank approves partnership strategy for Ukraine

The United States of America predicts complications with Ukraine's obtaining a loan from the International Monetary Fund (IMF) due to violations of democracy.

"Typically, the IMF will focus in on specific criteria that are solely in the economic area. Those conditions are hard enough to meet. But I do think that in reality if a country is seen to be violating its democratic obligations, it becomes more difficult for international institutions to support them, especially in this climate where there's a lot of pressure on funding and a lot of countries that need support," U.S. Assistant Secretary of State for European and Eurasian Affairs **Philip Gordon** said in an interview with TVi Channel on 12 February 2012.

Philip Gordon also said that Ukraine needs changes in the area of democracy to get closer to the European Union and the USA.

The National Bank considers that it is crucial for Ukraine to receive another tranche of the IMF stand-by loan in order to progress on the path of reforms.

Later, on 15 February 2012, Deputy Head of the Presidential Administration **Iryna Akimova** said that Ukraine will not face default, even if the country does not receive the next IMF loan.

In its Country Partnership Strategy for Ukraine covering the period of 2012-2016, the World Bank (WB) said that the possible discontinuation of the existing stand-by arrangement between Ukraine and the IMF is a key macroeconomic risk.

At the same time, the Country Partnership Strategy for Ukraine covering the period of 2012-2016 approved by the World Bank proposes an investment lending programme in the range of 500m dollars per annum. The International Finance Corporation is expected to lend additional funds of up to 400m dollars annually.

Finance Ministry places nearly 800m dollars in bonds at primary auctions, preparing to issue foreign currency bonds for public

On 16 February 2012, the Finance Ministry sold domestic government loan bonds worth 99.7m dollars.

The ministry managed to attract this amount primarily by placing two-year bonds worth 87.9m dollars at 15% per annum in one single bid.

Also, the ministry sold six-month government bonds for 11.8m dollars at a maximum rate of 13.75% per annum.

According to the state treasury, since the beginning of 2012, the government has sold a total of 558m dollars in domestic loan bonds.

On the same day, **Halyna Pakhachuk**, director of the Finance Ministry's department for debt and international financial policy, said that the government will be selling to the public its foreign currency bonds with a face value of 500-1000 dollars and maturity of one to three years. It is expected that the yield of the securities will be around 9% per annum. Oshchadbank [state-run savings bank] is ready to manage the issue of the foreign currency government bonds.

According to experts, this initiative of the Finance Ministry may face resistance

from the National Bank of Ukraine. "While the NBU is struggling with dollarization, the Finance Ministry is selling currency bonds for the public. Banks are caught between two fires: if we agree to sell the bonds, we can get it in the neck from the regulator, if we do not agree, we can be punished by the Finance Ministry. So we don't have the exact answer whether we'll be selling them or not," a market participant said in an interview.

However, as reported by the media, banks also want to know whether these paper bonds will be registered, as bearer securities can be used by the public for legalization of shadow incomes.

2012 state budget to undergo revision after first quarter

The government will introduce changes to the national budget in spring. "As we agreed, we will revise the budget based on results of the first quarter," President **Yanukovich** said on 16 February 2012. He said that the government wants to revise the 2012 national budget in order to increase funding for the regions.

Ukraine's foreign trade deficit grows to 6.75bn dollars in 2011

The negative balance of Ukraine's foreign trade continues to grow. In particular, according to the State Statistics Service, the negative balance of foreign trade in commodities and services of Ukraine in 2011 totaled 6.75bn dollars, which is 2.2 times or 3.72bn dollars more than in 2010.

At the same time, experts expect that the negative foreign trade balance of Ukraine in 2012 will reach 10bn dollars.

Dmytro Firtash not paying Ukraine for consumed gas

The chemical companies that belong to Ukrainian businessman Firtash have not been paying for gas for two years. The mass media reported that the debt for 2010-11 already reached over 330m dollars.

In particular, the debt of the company RivneAzot exceeded 137m dollars, while the Stirol concern had 91.63m dollars in debt. The Severodonetsk company Azot owes 44.4m dollars and the Cherkassy-based Azot company has 48.79m dollars in debt, the mass media reported.

All these companies belong to Firtash's group of companies called Group DF (Austria).

Tax police may be abolished in Ukraine. Prosecutor-general anticipates adoption of new Criminal Procedure Code in near future

The decision on the future operations of the tax police will be based on the analysis of its work.

"After the decriminalization of three articles on economic crimes in the Criminal Code, in case the parliament cancels alternative jurisdiction, the tax police will virtually deal with only six articles. The feasibility of the tax police's existence in such a form is being examined based on statistics," presidential advisor **Andriy Portnov** said on 13 January 2012. According to him, the fate of the agency will be decided in the near future, even before the parliament votes for the Criminal Procedure Code in the second reading.

Prosecutor-General **Pshonka** hopes that parliament will pass the new Criminal

Procedure Code in the second reading before March 2012. According to him, this spring the parliament will also adopt laws on advocacy and public prosecution, which are currently being actively prepared by specialists in his agency.

Farmers to face more tax pressure**Farmers will pay an additional tax.**

On 15 February 2012, the head of the Parliamentary Committee on Agriculture Policy, Party of Regions MP **Hryhoriy Kaletnyk** registered draft law No.10051 which suggests raising revenues of local budgets through the introduction of a fee for use of agricultural land at a rate of 1% of land value. This fee is expected to be paid both by lessees and owners of land who are engaged in agricultural commodity production. According to the estimates made by Kaletnyk, this will bring local budgets 440-540m dollars annually, which can be used for the development of rural areas.

At the same time, the introduction of the new fee does not cancel the land tax which also goes to local budgets.

Market participants believe that an additional tax would reduce profitability of enterprises, especially amid rising costs of fertilizers and equipment, value of land and, as a consequence, land rents, as well as a negative trend of decreasing prices of agricultural products.

It should be noted that starting from 1 January 2012, the government raised the standard value of land by 75.6% for the first time since 1995.

Government changes public procurement procedure**Public procurement will again go into the shadow.**

On 9 February 2012, parliament adopted in the first reading government bill No.9634 introducing amendments to the procedure of public procurement. According to Dzerkalo Tyzhnya weekly, the essence of the new bill is the following: the law on public procurement does not apply to any enterprises, particularly state-owned enterprises, public utilities, public enterprise for operational management of public property, as well as economic entities with a government stake of more than 50%.

According to the paper, the only exception is monopolists and procurements which are performed at the expense of budget money. However, in most cases it is virtually impossible to prove that a purchase was made with specific budget money. For this purpose, there should be a separate item in the budget. In other cases, money is allocated "in general". Therefore, enterprises can spend budget money without covering the rear. For example, if a state-owned mine receives a coal subsidy, it is considered budget money, but when the company starts to spend it, it is "a commercial activity".

British prosecutors show interest in Ukrainian drilling rig**The UK prosecution service has launched an investigation into the sale of a drilling rig to Ukraine by a British offshore company.**

According to the Ukrainian television channel TVi, the British law-enforcement agency decided to find out who stands behind a company named Highway Investment Processing, which was founded by offshore companies and headed by Latvian citizens **Stan Gorin** and **Erik Vanagels**.

For a start, the British law-enforcement agency decided to stop the process of the company's liquidation.

As reported earlier, in the spring of 2011 the Ukrainian company Chornomornaftohaz, run by Naftohaz Ukrayiny, acquired a drilling rig. Later, journalists of the Dzerkalo Tyzhnya conducted an investigation and found out that the drilling rig was purchased through an intermediary company named Highway Investment Processing, and that the price of the equipment was much higher than its market value. Chornomornaftohaz acquired the drilling rig for 400m dollars while its market price is 250m dollars.

In response to the journalists' allegations, Ukrainian Energy Minister **Yuriy Boyko** said that the price of the rig was adequate, and the difference of 150m dollars was due to the need for additional equipment and shipping costs.

Law-enforcement agencies increase pressure on Internet resources

Law enforcement authorities have attempted to close a public website that monitors activities of traffic police officers.

On 14 February 2012, a Kyiv court made the decision to block the Ukrainian site **Road Control** (roadcontrol.org.ua) on which users post their materials uncovering violations made by officers of the road patrol services.

The public project was created to protect the rights of drivers. On this website, users posted pictures and videos of law violations committed by traffic police officers.

The website was closed following a ruling made by the Desnyansky District Court of Kyiv.

In particular, the website contained a video in which traffic police officer **Hennadiy Hetmantsev** is arguing with a Road Control representative.

Later, Hetmantsev turned to the court because he deemed as insulting comments left by the website users under the video, which became the reason for the website closure.

One day after the closure, the Road Control gained a lot of supporters and defenders, including those among prominent lawyers and some political forces. On 16 February 2012, the Desnyansky District Court of Kyiv revoked its decision to block the site.

It is not the first time when law-enforcement agencies are trying to put pressure on Internet resources due to comments left by users.

In early December 2011, the Head Department for Cybercrime and Trafficking in Kyiv requested from a local server provider "the full information on the person or entity" which registered the LB.UA website. The police said that its demand followed an appeal from **Klimov V. M.**, a citizen of Ukraine, who complained that he found some text messages containing obscene statements on the LB.UA website. This case caused a wave of disturbance among the public and journalists. Later, the police withdrew all of its demands.

Ukraine-Iraq military hardware supply contract up in the air

Ukrainian state-owned Ukroboronprom group of companies rebuffs information of potential disruption of contract to supply Ukrainian weapons to Iraq.

The Head of the State Financial Inspectorate of Ukraine, **Petro Andreyev**, said on 15 February 2012 that the Kharkiv-based Morozov Machine Building Design Bureau failed to finish in time the modernization of BTR-4 armoured personnel

carriers to make the vehicles compliant with NATO standards. The project received 2.7m dollars of financing from the state budget. The non-timely completion of the task jeopardized the implementation of the entire contract with Iraq. Andreyev assessed the cost of the Ukraine-Iraq contract at 2bn dollars.

Andreyev also said that the money from the state budget allocated for the project were deposited in a commercial bank linked to the son of the former director of the Morozov Design Bureau, **Mykhaylo Borisyuk**.

Ukroboronprom Director-General **Dmytro Perehudov** (Ukrspetseksport being part of it) said for his part that Ukraine fully implemented the contract for the supply of military hardware to Iraq.

Ukrspetseksport signed a contract with Iraqi Defence Ministry to supply six An-32 aircraft and 420 BTR-4 armoured personnel carriers in 2009. According to media reports, the contract is financed by the US government as part of the military assistance to foreign countries and is worth 2.4bn dollars. The main contractors on the Ukrainian side are the Kharkiv Morozov Machine Building Design Bureau, the Kharkiv Engine Design Bureau, the Kharkiv Malyshev Plant and the Kiev Antonov Aircraft Building Plant.

The Ukrainian Agency for Development of Stock Market Infrastructure assessed Ukrspetseksport's net income in 2011 at 4.17m dollars.

Personnel reshuffling continues at the State Security Service of Ukraine. New Chief of General Staff appointed

Personnel reshuffling continues in the military and security sectors.

On 10 February 2012, President **Viktor Yanukovych** appointed **Andriy Sedyk** the head of Department for Protection of National Statehood at the Security Service of Ukraine. Sedyk replaced **Leonid Pyata** at this post.

By his another decree, Yanukovych appointed **Oleksandr Konshyn** the head of SBU Personnel Management Sector. Konshyn's predecessor at this position was **Oleksandr Tarasovskyy**.

On 18 February, Yanukovych also appointed Volodymyr Zaman as the Chief of General Staff, the Commander of the Ukrainian Armed Forces. Hryhoriy Pedchenko, who occupied this post, tendered his resignation earlier this week.

Defence Ministry official caught red-handed accepting bribe

The SBU and Prosecutor's Office staff detained the Defence Ministry's official at the scene while receiving a 15-thousand-dollars bribe on 17 February 2012.

"The head of a department at the Centre for control of surplus and decommissioned property of the Ukrainian armed forces was detained at his office while receiving 120,000 hryvnias as bribe from a representative of a state-owned company", the SBU press release reads. In the press release they also said that the aforementioned sum of money was paid to issue documents authorizing processing of scrapped property containing precious metals.

A criminal case was launched. The investigation is now in progress, in particular they check for involvement of other Defence Ministry's officials in this crime.

Ukraine mulls additional taxes for Russian Black Sea Fleet in Crimea

Ukraine plans levying more taxes from the Russian Black Sea Fleet base in Crimea.

A meeting between the Ukrainian and Russian foreign ministers **Kostyantyn Hryshchenko** and **Sergey Lavrov** on the occasion of the 20th anniversary of establishing diplomatic relations took place on 14 February 2012. According to media reports citing a source close to the negotiations, the Ukrainian party raised the issue of the Russian Black Sea Fleet deployment in Crimea. In particular, Ukraine seeks imposing taxes on those military base's facilities that are not used according to their designated purpose unless they are returned back to Sevastopol municipal property. Moreover, Ukraine also plans to impose import duties on a part of goods supplied for the Russian Black Sea Fleet in Sevastopol.

The Russian Foreign Ministry denied this information, but later, on 17 February 2012, Russian ambassador to Ukraine **Mikhail Zurabov** said that the talks on taxation of the Black Sea Fleet in Crimea continue.

A public opinion poll conducted by the Gorshenin Institute in April 2010 showed that a half of respondents (56.4%) took positively the fact that the Russian Black Sea Fleet will stay in Ukraine till 2043.

Russia may extend list of Ukrainian cheese producers banned from import if more products not compliant to Russian quality requirements found

Russia continues Cheese War on Ukraine.

"If we continue discovering products not compliant to the Russian requirements, we will extend the list of producers who are banned from exporting their product to our country", the head of Russian Federal Consumer Protection Service, **Gennadiy Onishchenko**, said on 17 February 2012.

Onishchenko added that the Consumer Protection Service will continue monitoring quality of Ukrainian cheese at the Russian market.

Earlier, the Russian Federal Consumer Protection Service prohibited import of about 128.5 tones of Ukrainian cheese to Russia as not compliant with technical regulations on quality.

The head of the Ukrainian State Veterinary Service, **Ihor Bysyuk**, said on 13 February 2012 that the service asked "some other countries to take samples of Ukrainian cheese for blind testing and to give us their results". "Those test results that we have now, confirm that there is no palm oil in the cheese we make", Bysyuk said.

The Ukrainian Foreign Ministry sees political background in the cheese issue.

According to some media, Russian ambassador to Ukraine Mikhail Zurabov also admitted that the issue of Ukrainian cheese export to Russia is of political nature.

During the round table discussion at the Gorshenin Institute, experts concluded that the Cheese War between Ukraine and Russia is merely a process of standardization of quality regulations. See details at page 14.

**Russian Duma speaker
to visit Ukraine**

The speaker of the Russian Duma, Sergey Naryshkin, will pay his first working visit to Ukraine on 20 February 2012.

“Of course, I will meet my colleague – the Ukrainian parliament chairman (**Volodymyr Lytvyn**) and other Ukrainian leaders”, - Naryshkin said.

**Security Service of
Ukraine presented
espionage charges to
scientist Volodymyr
Strelko**

The director of the Institute of Sorption and Ecology Problems of the National Academy of Science of Ukraine, Volodymyr Strelko, is suspected of espionage for the USA.

Media reports say the Security Service of Ukraine's (SBU) personnel searched the institute's building on 19 December 2011.

Scientists have learnt from the law enforcers that Strelko is suspected of espionage for the USA.

Sources in the law enforcement agencies told media that the SBU first time paid attention to the Institute of Sorption almost two years ago after receiving information that the director of the institute, Strelko, allegedly sends via internet to his American colleagues details of scientific research works dealing with the consequences of the Chernobyl accident and the state of health of the Ukrainian nation. “Allegedly, he did this in exchange for large grants form the USA to support the research work”, media quote a source in the SBU as saying.

The SBU officially confirmed their interest to the Institute. However, speaking about charges of espionage, the SBU spokeswoman Maryna Ostapenko said: “We now check this information”.

At the moment Strelko is staying in the USA. He denied all charges saying that the research is not finished yet and it is too early to speak about any results.

Strelko' research works are aimed at creating special sorbents for decontamination of liquid radioactive waste.

**Population in Ukraine
reduced to 45.6m
people in 2011**

The Ukrainian State Statistics Service unveiled preliminary results showing that the Ukrainian population as of 1 January 2012 constitutes 45.63 million people.

In 2010, the Ukrainian population counted 45.77m people and in 2009 – 46.14m people.

“The Cheese War” between Ukraine and Russian is merely a process of standardization of production codes – experts

The Gorshenin Institute hosted the round table discussion “What will be the outcome of the trade war between Russia and Ukraine”, where experts discussed reasons for Russia's banning export of goods from a number of Ukrainian producers.

Our Ukraine-People's Self-Defence Bloc MP and leader of the European Party of Ukraine Mykola Katerynychuk has said that so far there is no trade war with Russia, it is only artillery preparation from Russia's side. “This is not a war, this is just artillery preparation by Russia... I earlier forecasted that there would be no agreement reached regarding a gas price discount before the presidential election is finished in Russia, which has been now confirmed. However, after the election, the relations with Russia would not be simple either,” Katerynychuk said. He said that he would recommend taking trade agreements with the EU more seriously as trade relations with Russia will be politicised.

Katerynychuk also said that he offered Energy Minister **Yuriy Boyko** free legal services in the gas price dispute with Russia. “During a coffee-break at the meeting in Davos, on behalf of the European Party of Ukraine I offered Boyko support from specialists to challenge in court the price of the Russian gas. We are ready to offer these legal services free of charge,” Katerynychuk said.

According to Katerynychuk, Ukraine has a good chance to win a court case against Russia regarding the prices of gas.

The deputy chairman of the political council of the Our Ukraine Party and former foreign minister, Volodymyr Ohryzko, has said that Russia needs Ukraine to build a new Eurasian Union. He said that Russia acts improperly towards Ukraine in the economic sector trying to achieve its integration objectives. “Russia is tightening the economic loop via putting higher pressure on Ukraine's economy,” Ohryzko said. He also said that Russia is sparing no effort to drag Ukraine into the Customs Union and later – to the Eurasian Economic Union. “That is why Russia continues putting pressure on Ukraine using such tools as trade wars,” Ohryzko said. He added that Russia fails to understand that Ukraine has already made its European choice. “The Cheese War is one of the consequences of Russia's policy to involve Ukraine into its integration projects,” Ohryzko said. “We can expect new similar wars. Today we have the cheese war, tomorrow it is a caramel war, then a pipe war, an aircraft building war. They do all this to put pressure on Ukraine to drag it into the Customs Union. And later our country may lose economic and political independence,” Ohryzko said.

Ohryzko also said that Russia needs labour migrants from Ukraine and is interested in involving Ukraine into the Customs Union specifically to be able to actively use labour resources from Ukraine. “Last year, as many as 4,500 Ukrainians moved to Russia in the framework of the resettlement programme. This year Russia plans to attract 300,000 migrants. Where these people will be taken from? It is very unlikely that anyone of sound mind will swap Yalta for Vorkuta. But there are over 40 million people in Ukraine, Ukraine joins the Customs Union, then loses its independence,” Ohryzko said. He compared Russia to a girl “who keeps on imposing herself on the nearest person at hand”. “It is not a way of a great country,” Ohryzko said.

Director of the Kiev Centre for Political Studies and Conflict Management Mykhaylo Pohrebynskyk responded to his statement as follows: “Why do you compare Vorkuta to Yalta? Compare Sochi to Yalta. This is very typical of you, to make comparisons of this sort. And speaking about a girl who keeps on imposing herself, this metaphor is rather applicable to Ukraine in its relations with the EU.”

Pohrebynskyk also said that Ukraine should continue its efforts to achieve the 3+1 formula in relations with the Customs Union, moreover, the same approach should be followed in cooperation with the EU. “Ukraine will not join the EU in the near future, and the EU itself, it does not know where it will be in 20 years. You don't say 20! – it is not even clear what will happen in five years. But our government pulls Ukraine to the EU not asking people's opinion. Let them hold a referendum and let people say where they want to integrate – to the EU or to the Customs Union,” Pohrebynskyk said.

He also said that Ukraine should cooperate both with the EU and the Customs Union on equal terms, but it should not join the EU.

An advisor to the president of the Motor Sich Company, Ivan Bozhkov, has said that in Russia they have market economy and fair competition, so it is only high-quality products that can sweep the market there. “We sell 65% of our produce to Russia and I can say that we work in Russia only on the conditions of market economy when you can attract a customer only with a quality product. They have very severe competition at the aircraft equipment market,” Bozhkov said.

Agricultural Market Expert and Director of AgriSurvey Agency of the Ukrainian Agricultural Business Club Taras Hahalyuk has said that palm oil that Ukraine re-sells to Russia is used by the Russian dairy industry. He said that during 11 months of 2011 Ukraine re-exported to Russia 40,000 tonnes of palm oil that was mainly used by the Russian dairy and confectionery industries. Commenting on Russian experts' words that Ukraine increases import of palm oil and this is allegedly an evidence of using palm oil by Ukraine's dairy industry, Hahalyuk described these statements as manipulations with facts. “Import of palm oil dropped almost by half in Ukraine in the last three years: in 2009 we imported 410,000 tonnes of palm oil while in January-November 2011 it decreased to 190,000 tonnes. Moreover, Ukraine re-exports about one quarter of palm oil, and all this re-export, about 40,000 tonnes, goes to Russia,” Hahalyuk said. He added that the main consumers of palm oil are dairy, confectionery and perfume industries. “The war against palm oil is led not only against Ukraine. Since 2005, a number of scandals erupted in Russia because of using palm oil in the food production sector. In Russia they have even more problems of this sort than we have in Ukraine: Russia is a big country and in some regions they may sell products that do not comply with any regulations at all,” Hahalyuk said.

Hahalyuk also said that Ukrainian manufacturers of cheese may lose up to 300m dollars a year due to partial loss of the Russian market. Despite the fact that Russia's cheese import ban is applicable to only three Ukrainian companies, their product stands for at least 50% of the entire import of Ukrainian cheese to Russia. “So if the overall earnings from selling cheese to Russia are about 600m dollars a year, losses because of the import ban may constitute about 300m dollars a year. When we hear calls not to dramatise the situation, we have to

understand how serious the situation is: plants may be closed, people may lose their jobs. That is why this issue needs to be resolved as soon as possible,” Hahalyuk said. He added that shares of the Ukrainian suppliers of cheese to Russia are traded at the international stock markets. “In view of this, they are not interested in making cheese using any unauthorized additives as this would be a serious blow to their reputation. They would lose their foreign investors,” Hahalyuk said.

First Deputy Head of the Ukrainian Agrarian Union Vasyl Yaroshovets subscribed to his colleague’s opinion. “A total of 20% of cheese produced in Ukraine worth about 600m dollars, goes to Russia. That is why we are interested in stable supplies,” he said.

Yaroshovets also said that the political component of the Cheese War with Russia should be separated from the technical aspects. “If you remember, we had a similar story in the past with sunflower oil, when they found engine oil in the Ukrainian sunflower oil. There was an international scandal, as Ukraine is one of the world’s biggest suppliers of sunflower oil. At that time, in a coolheaded manner we processed all technical aspects and now we have no complaints regarding the quality of the Ukrainian sunflower oil. Now we see that the Ukrainian agricultural sector is keen to address all comments regarding quality of the Ukrainian cheese received from buyers. So we hope that the technical aspects of the problem will be solved soon. However, as far as the political component is concerned, this issue is not up to the agricultural sector participants but rather up to politicians,” Yaroshovets said.

Head of the Russian embassy in Ukraine’s economic sector, advisor Aleksey Urin has said that there is no “Cheese War” between Russia and Ukraine. He said that this is a routine process of standardization of quality standards. Urin said that now there are import restrictions in place for three out of fifteen Ukrainian cheese producers who work at the Russian market. “Can this be called a war? Yes, there are complaints about some products that constitute less than one per cent of the overall Ukrainian import to Russia. Without a doubt, this is a technical problem and it will be resolved in a routine way at the interdisciplinary level,” Urin said. He said however, that the problem also has a broader sense. “The area of quality standards is one of the key factors to ensure access of any sort of goods to foreign markets. Nowadays the countries of the Customs Union, Russia, Belarus and Kazakhstan implement a uniformed policy in the area of technical regulation. In the near future, we will have a fully standardized system of quality for all products produced in the Customs Union or imported there. Now we prepare for the signing an agreement on standardization of technical regulations between the Customs Union and CIS countries that are part of it. Ukraine can also accept these regulations while still using their own regulations or harmonize those completely with the quality standards of the Customs Union,” Urin said.

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