



May 8, 2014

No. 10 (21)

INSIDE UKRAINE

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The International Center for Policy Studies (ICPS) restores issuing analytic paper «Inside Ukraine», the last issue of which was prepared in September 2010.

The aim of the publication is to provide objective information on current political events in Ukraine and thorough analysis of major tendencies in domestic politics. Such analysis will assist in setting priorities in the process of implementing reforms in Ukraine and in evaluating quality of state decisions from the viewpoint of their impact and sustainability. Special attention is paid to evaluation of political competition in Ukraine and ability of key political players to address challenges.

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This issue is made possible by financial support of International Renaissance Foundation. Views expressed in the issue do not necessarily reflect those of International Renaissance Foundation

1. The Government Policy

The fight against corruption remains the key to resolving Ukraine's internal problems. It is the corruption of local authorities and law enforcement agencies that has provided favorable conditions for successful separatist scenarios first in Crimea, and then in south-eastern Ukraine. It is the fight against corruption that is one of the biggest woes of the Ukrainian society, shared by both Ukrainian-speaking West and Russian-speaking East. That is why the establishment of effective anti-corruption mechanisms with their immediate implementation in state governance may become the basis for national dialogue, which will frustrate any attempt of Russia to incite civil conflict in Ukraine.

1.1. Artificial incitement of civil conflict in Odessa

With an anti-terrorist operation being mounted in Donbas, on May 2 there was an attempt to shift the centre of the separatist movement to the South of Ukraine, namely the southern city of Odesa. Although the idea of federalization and separatism is not popular with Odesa's residents, it was pro-Russian activists from other regions of Ukraine, and Transnistria, as well as indulgent local police that made possible a provocation that left 46 dead and more than 200 injured. This is seen as artificial escalation of civil conflict in the capital city of the region, which previously had been calm and stable, while being also key to the whole South of Ukraine.

Prior to the events of May 2, the pro-Russian forces in Odesa had been marginalized as only a few dozens of local activists were their active supporters. One week before the events, it had been reported at a local level that during national May holidays there would be a march of pro-Ukrainian forces, the mobilization of aggressive groups of pro-Russian supporters and possible provocations in Odesa, which might lead to many casualties. Nevertheless, Odesa police did nothing to prevent the bloodshed.

Hundreds of well-armed men attacked the supporters of the united Ukraine during the march, leaving eight pro-Ukrainian activists dead. Later, the overwhelming majority of the supporters of the united Ukraine drove pro-Russian supporters off into a trade union building, where a fire started and in which 36 people died. This tragic event was used by the Russian mass media to foment anti-Ukrainian sentiments in the city.

On May 4, pro-Russian supporters stormed the local administration of the Ministry of Internal Affairs of Ukraine demanding the release of the federalists that had been detained before. The acting chief police officer in Odesa region, Dmytro Fuchedzhi, ordered to release 67 detainees. The internal investigation needs to be launched as regards this decision, as it is a court of law that should decide on preventive measures, whereas the release of detainees to calm down the crowd is against the rule of law. It should be stressed that Fuchedzhi, who was responsible for public safety in Odesa, coordinated the police during mass protests on May 2, when separatists were firing guns behind the police forces, with some police officers carrying the same armbands as pro-Russian supporters.

Nevertheless, Yulia Tymoshenko announced that the police were not to blame. At the same time, Mrs Tymoshenko did not comment the fact that the Chief of the regional police had been appointed under "Batkivshchyna" party quota. According to Yuriy Lutsenko, despite the tragic events that happened on May 2, the change of regional police chief was fiercely

Events in Odesa are an attempt to transfer fire of separatism to the South

Appointments under party quotas corrupt law enforcement agencies

opposed by Oleksandr Dubovyi, “Batkivshchyna” MP, who perceives Odesa as his fiefdom and wishes to fully control local appointments.

1.2. The reason for police inefficiency is corruption

The use of the party quota system for official job appointments has the corrosive effect on the general situation in Ukraine, and it is anti-state by its nature. There is no such notion as party property over police or law enforcement agencies. The latter should protect state interests and public safety instead of being puppets of party leaders.

Now Ukraine must pay a high price for failing to reform law enforcement agencies. Inflation is not only an economic matter. Delay in systemic changes in Ukraine increases the financial, social, political and psychological costs of non-doing. Previously, justice system reform was needed to restore public confidence in state bodies. Now the lack of such a reform is threatening the very existence of the Ukrainian state. At the moment, Kyiv cannot efficiently use local security forces as the mainstay to stabilize the situation in Ukrainian regions partially controlled by pro-Russian separatists.

The inefficiency of the Ukrainian police forces in fighting terrorists and criminals in the East has nothing to do with the lack of professionalism of police officers. The reason behind this inefficiency is a dependence of police officers, that is mere corruption.

A great number of police officers in the East owe their appointment to Viktor Yanukovich, and they are regularly financially encouraged by the “Family”, which explains their passivity at the initial stages of the separatist movement in Donbas. New appointments do not eliminate corruption, as police officers are now dependent on the party leadership that appointed them. The connections between ordinary police officials and regional elites are another factor contributing to the existing corruption. The combination of all these factors makes the law enforcement agencies weak in countering serious challenges that Ukraine is facing today.

A reform of law enforcement agencies, a departure from party quota practices and the fight against corruption in law enforcement are important problems, acknowledged by both the West and the East of Ukraine. The mechanisms for changing the law enforcement system may become the basis for constructive dialogue between the two parts of Ukraine, the confrontation between which Russia and the previous Ukrainian authorities are trying to fuel.

1.3. The fight for Anti-Corruption Bureau

The Anti-Corruption Bureau was supposed to become the key state body that would coordinate the fight against corruption in Ukraine. Although the head of the Anti-Corruption Bureau was appointed late February, the Bureau itself has not come into existence yet. Instead, the political tussle started for the mechanism of its operation. The fact that party interests override the state ones casts a shadow over the endeavours of the Ukrainian government to create an effective state body that could, at least, reduce the scope of corruption in Ukraine, if not to eradicate it altogether.

The main agents of influence for the preparation of the Bill on the Anti-Corruption Bureau is a group of Viktor Chumak, UDAR MP and Head of the Anti-corruption parliamentary committee, as well as a group of Serhiy

There is no such notion as party property over state agencies

The inefficiency of the police in fighting terrorists has nothing to do with the lack of professionalism

Justice reform and fight against corruption as a basis for national dialogue

While creating Anti-Corruption Bureau, party interests override the state ones

Pashynskiy and Tetyana Chornovol from the “Batkivshchyna”.

The Bill proposed by Mr. Chumak was worked out in collaboration with non-governmental organizations. The Bill provides for the appointment of the Head of the Anti-Corruption Bureau according to a competition-based strategy. The competition for the position is supervised by the commission composed of the Minister of Justice, the Ukrainian Parliament Commissioner for Human Rights, Prosecutor General, a representative of the President, three representatives of the relevant committee and four representatives of NGOs. Mr. Chumak’s opponents claim that in the short-term prospect Viktor Chumak, who heads up the relevant parliamentary committee and is linked to NGOs dealing with anti-corruption issues, will get the chance to influence the appointment of the head of the Anti-Corruption Bureau.

Major difference in two drafts is the way Head of the Bureau is appointed

On the other hand, according to the Bill proposed by the “Batkivshchyna”, the Head of the Anti-Corruption Bureau shall be appointed and dismissed by the National Security and Defense Council of Ukraine, that is the President of Ukraine. Besides, under the Bill the scope of the Bureau activities will be limited to civil servants only, whereas the UDAR proposed that the scope of the Bureau’s activities should be extended to economic felonies causing the damage worth over 500 minimal salaries.

According to the reports of Ukrainian mass media, at first Tetyana Chornovol was supportive of Chumak’s draft of the Bill. But when criteria for the head of the Bureau were set out in the draft making it impossible for Chornovol to take up the position (a degree in Law and a minimal age for the candidate – 35 years), Chornovol refused to cooperate.

Another point of criticism is the fact that Olena Tyshchenko was appointed the head of the working group on anti-corruption legislation and she is the actual author of Chornovol’s draft. Ms Tyshchenko’s name was connected to a lawsuit on money laundering that was filed in Russia. Nevertheless, the head of the Anti-Corruption Bureau said that the criticism leveled at Ms. Tyshchenko was a well-planned information attack by oligarchs against corruption fighters.

Elaboration of anti-corruption legislation is supervised by a person, once accused of money-laundering

At the moment, there are four bills on Anti-Corruption Bureau submitted to the Verkhovna Rada of Ukraine. The political struggle between UDAR and “Batkivshchyna” resulted in the fact that passing of those bills is postponed for indefinite time. It is unacceptable to draft bills based on own interests, and it may be seen as another indication of political corruption.

2. Economic Situation

Corruption, destabilization in the East and deterioration of relations with Russia negatively influence Ukrainian economy. Meanwhile, people are more worried about economic matters than political ones. In order to improve situation in the economy, systemic reforms are needed. First and foremost, they should concern banking system and energy sector.

2.1. Issue of double taxation in banking system

Since the beginning of 2014 the banking system has been facing hardships. They were caused by overall economic crisis, trends on FX market and negative expectations of consumers, which resulted in a significant outflow of deposits.

Current legislation, which regulates activities of banks, requires fine-tuning. One of the problems is the way duty on obligatory state annuity life insurance is administered during transactions with FX purchase. Nowadays there is a situation when authorized banks have to pay the duty on all FX purchase transactions – both in-house and those which are made upon the customer's request. As a result, the duty is paid twice – by the bank and by the customer.

In this case banks will have to transfer related expenses to the customers. It will lead to decrease in the number of transactions and deterioration of FX market efficiency.

Double taxation may be eliminated through the amendments to the Law of Ukraine "On duty on obligatory state annuity life insurance" and exclusion of authorized banks from the list of entities which are obliged to pay the duty on transactions of FX purchase.

2.2. Aggravation of trade war with Russia

Russia continues to actively use administrative methods to limit the import of Ukrainian products. It does not only prevent Ukrainian products from entering the Russian market, it also blocks their transit to other countries.

The trade war may result in 35-40% decrease of export to Russia. Taking into account that last year the volume of import to Russia was more than USD 15 bln., Ukrainian losses may make up USD 5-6 bln. At the same time Ukrainian producers will not be able to re-orient to other markets in short run. One of the reasons is the nature of products which are delivered to the Russian market. Mechanical engineering, metal and chemical industries as well as companies of military complex will be the first to suffer losses.

At the same time duty "window" to Europe cannot cover these losses. Besides, availability of these benefits does not mean automatic access of Ukrainian producers to the European market. A number of companies may face the problem of product certification. Only highly competitive companies with effective management and reasonable marketing policy will gain from cancellation of duties.

Under these circumstances it is important to hold negotiations with Russia regardless of complicated relations the two countries are having now.

Pension duty during FX purchase transactions is paid twice

Russia blocks transit of Ukrainian products to other countries

Duty "window" to Europe cannot cover the loss of Russian market

2.3. Situation on the energy market

Events in Ukraine and complicated relationship between “Naftogaz” and “Gazprom” make the EU countries revise prices of Russian gas and think of reliable gas supplies to ensure energy security of the countries.

Negotiations between Russia, Ukraine and the EU in Warsaw on May 2 were not fruitful. Two more rounds of negotiations are expected to be held in May. At the same time it is planned to use summer months to fill Ukrainian gas storage facilities with gas volume, needed for winter. An important message is that the European Commission is going to support “Naftogaz” financially so that it is able to pump in sufficient volume of gas in Ukrainian storage facilities. The parties agreed to guarantee gas supplies to the EU till the end of May in order not to aggravate situation in gas sector.

It is especially important for Ukraine that the European Commission supports the idea of unified price of Russian gas for all the EU countries as nowadays they purchase the gas at different prices. Therefore, Ukraine may expect that the European Commission will also support the position of Ukraine as regards competitive price of the Russian gas.

No doubt that “Naftogaz” joining AGSI+ gas storage inventory was a breakthrough in the energy sector. Ukraine was the first non-EU country that joined the system which meets the standards of the Association of European operators of underground gas storage facilities. Since this week the information on natural gas volume available in Ukrainian underground gas storage facilities will be updated on a weekly basis and it will display the situation in each gas storage facility. The capacity of all Ukrainian gas storage facilities makes up 32 bln. cubic meters.

It will ensure transparency of the state company and its integration to the European gas market. As well, now “Naftogaz” may offer the EU to use capacities of Ukrainian gas storage facilities. In order to increase efficiency of these solutions, it is important to establish reverse-flow gas supplies through one of the pipelines on the border between Ukraine and Slovakia (so called “big reverse-flow route”).

Transparency of gas facilities data is an important component of energy security of Europe. AGSI+ provides online coverage of data on European gas storage facilities with a total capacity of 79 bln. cubic meters, which makes up 82% of technical capacities of gas storage facilities in Europe. Beside “Naftogas”, the information on natural gas volume is provided by 31 operators of underground gas storage facilities from 15 EU states.

Energy security of Ukraine may be strengthened through the increase of domestic extraction of gas and oil. This idea is regularly repeated by civil servants of all ranks, but then officials invent a lot of obstacles that prevent its implementation. Unless the Government pays due attention to this matter, increase in resource extraction will be nothing but declarations.

In January-March 2014 Ukraine reduced gas consumption by 11.2% - down to 18.404 bln. cubic meters. Gas extraction in Ukraine, excluding “Chornomornaftogaz”, for three months of 2014 made up 4.882 bln. cubic meters, which is 2% more comparing to the relevant period of 2013.

Only systemic and sustainable steps on gas market will strengthen energy security of Ukraine. The Government of Ukraine should ensure the update of Ukraine’s Energy strategy and fulfillment of international obligations in the energy sector.

The EU may revise prices of Russian gas

The European Commission may support Ukraine’s position in negotiations with Russia

“Naftogas” joining AGSI+ will allow the EU to use capacities of Ukrainian gas storage facilities

Only systemic governmental steps will strengthen energy security of Ukraine

3. Political Competition

The presidential election campaign enters the home stretch. Petro Poroshenko, the leader of the campaign according to public opinion polls, should make all possible efforts for elections to take place, especially in the Donbas region. Currently the main challenges are the inability to hold elections in the cities that are occupied by terrorists, the understaffing of district election commissions and the withdrawal of candidates that are associated with the Ukrainian East.

3.1. *New Triple Alliance in Ukrainian politics*

Petro Poroshenko continues to lead the presidential race, winning up at least a third of all votes according to opinion polls. Recently he involved a new VIP-canvasser beside Vitali Klitschko – the former Minister of Internal Affairs Yuriy Lutsenko. It is considered that the latter could lead the party list of Poroshenko's "Solidarnist" at the next parliamentary elections.

However, nowadays the party exists only formally, not supported by either a team or a network of regional centers. Yet, the potential Poroshenko's victory in the presidential election will strengthen his substantial financial base and build up a team which will include both experienced politicians and new faces.

It is deemed that the early parliamentary elections will be held this autumn. During this period Poroshenko will not lose much of his support and with no additional effort he can receive at least 10-15 percent of the seats in the parliament.

The alliance of Poroshenko, Klitschko and Lutsenko is more organic than the last year's opposition triple of Klitschko, Yatsenuk and Tiagnybok. The future role of the main figures is fixed in advance: Poroshenko as the President, Vitali Klitschko as the Kyiv Mayor and Yuriy Lutsenko as the head of the parliamentary faction.

Such scenario contains a number of serious challenges, especially for Vitali Klitschko. It is considered that in case of the victory he will have to deal with the various issues of city life and have only an indirect impact on the national political process. However, such threat includes also a wide range of opportunities.

The task of Vitali Klitschko is to transform the problems of "tubes and prices" to a state policy of a new quality. Kyiv is one of the largest business centers in Ukraine, therefore positive changes on democratization and introduction of transparent market mechanisms will be readily supported. Thus, decisive reforms in Kyiv would turn Klitschko into a major opinion-maker. A similar scenario has been realized by Lviv Mayor Andriy Sadovyi, even despite the fact that Lviv is much smaller than Kyiv.

For Klitschko it is important to hold his own party, which, while cooperating with the Poroshenko's party, yet remains a separate political force. This would be more and more difficult because the Poroshenko's "Solidarnist" will absorb bright individuals in pursuit to create its own team. The fastest and most effective recruiting is the one among allies, as they share identical ideological positions and have similar electorate.

Vitali Klitschko is facing a task that was previously successfully implemented by Yulia Tymoshenko. Despite the coalition with "Our Ukraine" and the unconditional support of Viktor Yushchenko before the presidential election in 2004, Tymoshenko has developed her own party

*Yuriy Lutsenko
joined VIP-
canvassers of
Poroshenko*

*Successful
reforms in the
capital will make
Klitschko a
national
opinion-maker*

“Batkivshchyna” as an independent project and was able to capitalize it at the 2006 parliamentary elections. As an example, in 2006 “Batkivshchyna” received 22.3% of votes, while “Our Ukraine” – only 14%.

3.2. The aggressive campaign of Yulia Tymoshenko

Yulia Tymoshenko builds her election campaign on negative utterance. After realizing that her support is not growing, she focused mostly on an aggressive criticism of her main competitor – Petro Poroshenko.

The cornerstone of this criticism is the depiction of the politician as an oligarch. The journalists Mustafa Nayem and Sergey Leshchenko claim that Tymoshenko, aiming to get trumps against Poroshenko, even started negotiations with her sworn enemy – the gas group of Dmytro Firtash. One of the conditions of the release on bail of Evhen Bakulin, the former head of “Naftogaz”, was supposedly the public statement of Firtash about the talks in Vienna with Peter Poroshenko regarding his support in the presidential election.

Trying in every possible way to secure his victory in the first round, Petro Poroshenko even proposed Yulia Tymoshenko to become the PM. The “Batkivshchyna” leader rejected the offer, despite the fact that according to the present Ukrainian Constitution the Head of the Government has much more power than the President. Tymoshenko categorically stated that there are two politicians with whom she will never unite – Mykhailo Dobkin and Petro Poroshenko.

Besides, Tymoshenko’s idea of a Resistance Movement raises a lot of questions. It must be emphasized that it is her party that controls all appointments in the security forces and can directly influence their decisions. The effectiveness of any military organization is the clear hierarchy and unconditional subordination of different units to the headquarters. The existence of parallel resistance headquarters adversely affects the countries’ defense and is considered more as a pre-election move, rather than a constructive solution.

Yulia Tymoshenko is upbraided for the fact that she was isolated from the political process in the country for a very long time. It is difficult for her to return to the previous level of electoral support. She does not feel the deep changes in the consciousness of Ukrainians after the tragic events in the winter 2013/2014. In particular, this is indicated by her statement that in case of a defeat in the elections a third revolution will be organised. However, she forgets that the main purpose of the Revolution of dignity was not the support of specific politicians, but the people’s aspiration to restore justice and the rule of law and to ensure their civil rights and liberties.

3.3. Election threats by the representatives of the Party of Regions

The mass withdrawal of the presidential candidates that are traditionally associated with Eastern Ukraine will negatively affect the recognition of presidential elections results and the overall legitimacy of the new government among population of these regions.

So far, Natalya Korolevska and Oleg Tsarev refused to participate in the presidential race. Statements about a possible withdrawal from the elections were also made by Mykhaylo Dobkin, the official candidate of the Party of Regions. The further development of this trend will play into the hands of Russia that does its best to undermine and to wreck the presidential

Tymoshenko builds her campaign on fight against oligarchs

Tymoshenko rejects alliance with Poroshenko

Tymoshenko forgets that the Euromaidan started due to the people’s aspiration to change the system, not the politicians’ names

Withdrawal of pro-Russian candidates plays in hands of the Kremlin

elections in Ukraine on May, 25.

Among all former members of the Party of Regions the most support is enjoyed by Serhiy Tihipko. His ambition and desire to develop his own political project is a guarantee of his participation in the elections.

At the same time, the former representatives of the Party of Regions Valery Konovalyuk and Yuriy Boyko are not actively involved in the formation of district election committees (DEC). The understaffed DEC's are an additional threat for the election. For example, according to the "Opora" network only in Khmelnytsky Region the deficit of DEC members is around 2,000 people, in Mykolayiv Region – 952, and in Kirovohrad Region – 700 members. The situation is much worse in the towns of Luhansk and Donetsk regions that are controlled by separatists.

The reason for the understaffed DEC's lies in the fact that not all candidates handed in the lists of proposed DEC members and do not use their quotas for the commission members. The lack of quorum at the understaffed DEC's can lead to the wreck of presidential elections. The Government partially responded to this threat and reduced the minimum number of DEC members from 12 to 9 members.

***Understaffed
DECs threaten
the election in
technological
terms***