



President & PM to Visit EU Pipeline Conference

President Viktor Yushchenko and Prime Minister Yulia Tymoshenko will together visit the EU conference on modernising Ukraine's pipeline infrastructure on 23 March in Brussels.



▲ President Viktor Yushchenko and Prime Minister Yulia Tymoshenko ready to place flowers at the monument of Taras Shevchenko. The two leaders, who were together at an EPP meeting last Thursday, will visit the Brussels pipeline infrastructure conference together on 23 March.

"Ukraine's leaders will present a consolidated position on what is a topic of national importance," said Oleksandr Turchynov, First Deputy Prime Minister.

The objective of the conference, hosted jointly by the European Commission and Ukrainian government, is to help Ukraine maintain its capability as a main gas transit country for EU consumers, and to foster reforms for both domestic gas supplies and international transit. The conference will bring together EU and government officials from Ukraine and other countries, as well as international financial institutions and the private sector.

An EU-Ukraine audit of Ukraine's gas transit infrastructure undertaken in 2006-2007 concluded that Ukraine's pipeline system needed a €2.5 billion modernisation programme from 2008-2013.

Ukraine's gas transit network is the second largest in Europe. At 38,000 km long, it includes 22,000 km of high pressure pipelines, 73 compressor stations and 1,600 gas transmitting stations. Also, it contains 13 underground gas storage systems, mostly located in the western part of the country, capable of holding a total volume of about 34 billion cubic metres of gas.

According to media reports, Russia has put pressure on EU officials to postpone the Brussels conference. A source close to the conference told *Interfax* that Russia hopes to get support for alternative pipeline routes that bypass Ukraine, namely the Nord and South Stream projects.

Nord Stream is a planned Russo-German gas pipeline that would run under the Baltic Sea, whereas South Stream is a proposed route to transport Russian natural gas to Italy and Austria, running under the Black Sea to the south of Ukraine and through southern Europe.

The decision by Ukraine's president and prime minister to attend the conference took place before the two leaders met at a gathering of the European People's Party in Brussels last Thursday. There, they agreed to resume weekly meetings in Kyiv with the speaker of parliament and governor of the National Bank of Ukraine. The purpose of these weekly sessions will be to determine and agree measures to address the global financial and economic crisis.

"I am completely ready for cooperation with the president, I was and always will be, in order to protect Ukraine from the crisis," said Ms Tymoshenko.

Cabinet of Ministers Take Pay Cut

Ukraine's Prime Minister Yulia Tymoshenko and members of the Cabinet of Ministers have agreed to cut their government salaries by 50 percent as the economic downturn bites. At the same time they have appealed to lawmakers in the 450-seat Verkhovna Rada (parliament) to follow suit.



The salary cuts are to be in place until January 2010. Although there is no official confirmation as to Ms Tymoshenko's actual salary, *Interfax* has quoted Labour Minister Lyudmyla Denisova as saying that the premier's monthly salary will now be UAH 11,000 (\$1,325).

"The move is a gesture of support for all those impacted by the global financial and economic crisis," said a BYuT spokesperson, "we wanted to send a message that fiscal responsibility and self-sacrifice are needed in these challenging times. We implore all lawmakers to follow our lead."

Russia Visit to Discuss \$5 Billion Loan

Next month, Prime Minister Yulia Tymoshenko will meet with her Russian counterpart, Vladimir Putin, in Moscow and will discuss a possible \$5 billion loan to Ukraine.

Russia's Foreign Ministry confirmed that it had received a request for a \$5 billion loan and was considering it. Despite allegations that this would increase Russian influence over the former Soviet republic, a spokesperson for Ukraine's premier said that a loan from Russia would come with "no political strings attached."

Another reason for the two leaders to meet is to discuss adjustments to the long-term gas agreement brokered on 19 January. This is needed because Ukraine and European states have slashed their consumption of gas. According to Ukraine's fuel and energy ministry, Russian gas transit to Europe via Ukraine fell a staggering 43.4 percent in February to 6.4 billion cubic metres from 11.3 billion cubic metres in February 2008.

Ukraine's state run gas company, Naftohaz Ukrainy, said that it planned to import about 33 billion cubic metres of gas this year compared with 27.9 billion in 2008. In previous years the imported average was around 55 billion cubic metres of gas.

The meeting between the two prime ministers is tentatively scheduled for 8 April.



▲ Prime Minister Tymoshenko and Russian Prime Minister Vladimir Putin have already proven that they can work together.



EBRD Ready to Invest €1 Billion

The European Bank of Reconstruction and Development (EBRD) said that it is ready to support the refinancing of Ukraine's banks but only after the government concludes an agreement with the International Monetary Fund (IMF).



▲ Thomas Mirow, the president of the EBRD.

The London-based European bank said it was prepared to increase the amount of support to help recapitalise Ukrainian banks. In February it said that it was ready to invest more than €500 million to help shore up about 20 of Ukraine's 180 banks.

"It depends on whether there is an agreement" between Ukraine and the IMF, EBRD President Thomas Mirow said in an interview with *Bloomberg* in London. "We are ready to invest more than €1 billion (\$1.27 billion) in Ukraine's financial system and real economy if there is an agreement with the IMF."

Speaking at the London School of Economics, Mr Mirow urged European nations to stand together and support Ukraine so as to avoid it becoming a "no man's land." In particular, he called for EU states not to restrict the flow of money from their banks to prop up their Ukrainian subsidiaries.

"As a signal of European solidarity but also of economic sense we endorse the view taken at last week's EU Summit that in providing support to their own banks, West European countries must

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not prevent those funds being used to help their subsidiaries in Eastern Europe," said Mr Mirow. Recognising the importance of Ukraine, he called it "a test case for international solidarity."

Some 40 percent of Ukraine's banks are foreign-owned or foreign-controlled. So far, European banks have pumped in millions of euro to keep their subsidiaries from collapsing.

The EBRD president also recognised the declarations of unity between Ukraine's political leaders in tackling the financial crisis. He noted that an "inherently instable political situation only exacerbates a grave economic situation."

The leader of the Party of Regions, Viktor Yanukovych, stressed that his party was ready to work together with the governing coalition to help resolve the financial crisis. "We are ready to unite but only on the basis of the programme on struggling with the crisis," he said.



▲ Thomas Mirow, president of the EBRD with Prime Minister Yulia Tymoshenko during his visit to Ukraine on 16 February.

Deputy Prime Minister Hryhoriy Nemyria, welcomed Mr Mirow's statement and said "we are making good progress to securing the second tranche of the IMF loan. Ministers have taken the necessary measures to amend the budget and refinance commercial banks in line with IMF requirements. An agreement with the IMF will be a catalyst for bilateral loans orchestrated by Prime Minister Tymoshenko. It is therefore a vital step to safeguarding the nation's financial and economic system."

Gas Belongs to Naftohaz After All

The recent raid by Security Service (SBU) Alpha anti-terrorist special forces on the Kyiv headquarters of Naftohaz Ukrainy was in vain. Publication of the gas contract concerning the disputed 11 billion cubic metres of gas has revealed that the gas belonged to Naftohaz after all.

The raid on 4 March (see Inform Issue 105) could not have been undertaken unless authorised by President Viktor Yushchenko. Following the raid the president said that the "Security Services are acting exclusively on a legal basis and within the confines of responsibilities laid out by law."

The publication of the contract in Glavred magazine on 11 March confirmed the facts and that the raid was not justified. The weekly Glavred is owned by a former senior presidential adviser, Oleksandr Tretiakov, who has joined the Tymoshenko government's democratic coalition.

Mykola Martynenko, head of the Kyiv branch of the Our Ukraine-People's Self-Defence (OU-PSD) bloc, another defector to the democratic coalition, spoke on behalf of many when he said that it was hypocritical for the presidential secretariat to talk about "honesty" and "morality" as these words sound "hilarious" coming from them, Ukrayinska Pravda reported on 12 March. "Especially after the "mask-show" in defence of the private interests of oligarchs," a reference to SBU forces wearing masks and the raid being on behalf of oligarchs who stand behind RosUkrEnergo (RUE). Mr Martynenko has long been associated with Kyiv's leading think tank, the Centre for Economic and Political Studies (commonly known as the Razumkov Centre), which acted as Mr Yushchenko's analytical-research department in his 2004 election campaign.

The SBU raid also reinforced concerns within Ukraine's political and business elites over the president's willingness to use security forces in domestic political struggles. Parliamentary speaker Volodymyr Lytvyn was alarmed, saying "One state institution attacked another state institution. Where elsewhere on earth would you see this?"

Ownership Unequivocal

The contract, published in Glavred, is dated 6 February and signed by the deputy head of Gazprom, Valeriy Holubyevym, and the first deputy head of Naftohaz, Ihor Didenko. It concerns the transfer of 11 billion cubic metres of gas to Naftohaz at a cost of \$1.7 billion. This translates to \$154.55 per 1,000 cubic metres of gas, the lowest gas price in Europe. The Tymoshenko government has always stated that the January gas contract with Russia was beneficial to Ukraine's economy because it provided lower gas prices and removed RUE – the shady intermediary believed to be a major force for corruption in Ukraine's energy sector with tentacles extending deep into the country's political system.



▲ Masked and heavily armed Secret Servicemen raid Naftohaz's offices on 4 March. None of the papers seized showed any irregularities and the contract reveals Naftohaz purchased the gas legally.



The Glavred commentary on the contract concluded that because RUE does not figure in the contract, then “RUE formally is not even a party to the realisation of this work order which it is allegedly attempting to challenge in the courts.” Glavred recommends that RUE take Gazprom to court – not Naftohaz – as the contract reveals Naftohaz to have acquired the gas legally.

Ukrainian politicians, such as Mr Martynenko, are shocked to see a president so openly defending corrupt gas interests. Under former President Leonid Kuchma corruption in the energy sector was widespread but the president kept a safe distance. The bungled raid on Naftohaz has served only to reinforce calls for Mr Yushchenko to step down early, call pre-term elections and to not stand for a second term.

Europe Must Pull Together in This Crisis

The following opinion piece by Prime Minister Yulia Tymoshenko was published in *The Guardian* newspaper on 9 March, 2009. It followed the premier’s working visit to France on 4 March.

the guardian



Since the end of the first world war, France has consistently risen to the challenge of restructuring Europe in times of crisis. In doing so,

it became the catalyst not only for building European unity, but also for creating the prosperity that marked Europe's post-war decades – a prosperity now under threat because of the global financial and economic crisis. If we are to see a stronger Europe emerge from today's challenges, visionary French leadership is needed again.

The first moment when decisive French leadership began to unify Europe came when Robert Schumann and Konrad Adenauer created the European Coal and Steel Community. By rooting the then West Germany in the political, economic, and social fabric of the west, that step heralded the start of Germany's rebirth and economic miracle.

The second time that France consolidated Europe's internal architecture came in 1983, during the debates over the stationing of American cruise and Pershing missiles in Germany to counter the deployment of SS20 missiles by the Soviet Union. France's resolve to stand with Germany helped prevent it from drifting into a dangerous neutrality that would have shaken the European community to its core.

The third moment came after the Berlin Wall fell, and it was feared that an enlarged Germany might destabilise Europe. After initially trying to delay reunification, France embraced it, in exchange for Germany reaffirming its commitment to European unity and Franco-German leadership of the European community. As a result, Germany bound itself to the idea of "ever closer union" even more definitively by pledging to join the common European currency, the euro.

It is now urgent that the insights that have animated Franco-German relations be applied to all of central and eastern Europe. Only by securing the European identity of this entire region, and by anchoring the growing Russo-German relationship in a European context, can the

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European Union continue on its path of stability and prosperity. Only by reinforcing open trading and financial relations across Europe can we hope to subdue today's crisis. For it is in no European country's interest, or in the interest of the EU as a whole, that central and eastern Europe feel that they have been cast adrift or that Germany and Russia fixate on each other in this time of crisis.



▲ President of France Nicolas Sarkozy and Prime Minister Yulia Tymoshenko.

As with Germany in the 1950s, the nature of Russia's links with its immediate neighbours is turning out to be the defining factor in shaping the country's international image. Many observers regard these relations as a signal not just to the region, but to the rest of the world, of the sort of power that Russia wishes to be.

The issue is partly one of "internationalism" itself. In contrast to Europe – with its close-knit network of multi-lateral organisations through which states formulate and conduct much of their foreign policies – Russia is not accustomed to intensively co-operative international procedures.

But keeping Russia at arm's length from Europe has only strengthened the sense of isolation that many Russians feel, tempting them to define the country's interests in ways that are irreconcilable with those of Europe. It has also heightened Russia's desire to construct a special, bilateral Russo-German relationship, heedless of the context of the EU.

European history during the past 60 years makes clear that the most promising approach to meeting the challenge of national reconciliation and stability is not to focus on specific contingencies, but to establish procedures that encourage orderly change. A singular vision has always animated this process: animosity between neighbours must not be allowed to fester, and the rule of law must reign not just within countries, but also between them.

To believe that such a vision can work for Russia, Ukraine and Europe is not wishful thinking, but rests on the successful experience of France and Germany in promoting amity. Indeed, the existence or absence of a framework of cooperation often determines whether a dispute mutates into a crisis. Such co-operative frameworks seek to reconcile national independence with regional interdependence, focusing political leaders' minds on prosperity for their people rather than on gaining unilateral advantages that ultimately impoverish and unsettle everyone.

“To believe that such a vision can work for Russia, Ukraine and Europe is not wishful thinking”

The first lesson of European unity is that times of crisis must draw the continent closer together, not divide it through protectionism, competitive devaluations, and expulsions of immigrants. Similarly, the euro must not be allowed to become an iron curtain that consigns non-members to a high-risk zone where investors dare not venture.

For Ukraine, Europe can help by embracing the free-trade agreement that we are now negotiating. Coupled with our successful membership in the World Trade Organisation, Ukraine



would stand to benefit when world and European trade begins to recover. Europe can also consider using various stabilisation funds to help our economy through the crisis that we are all enduring.

I do not ask for these things out of a narrow concern for my country's health. Just as the US Federal Reserve has engaged in credit and currency swaps with Brazil, Mexico, Singapore, and South Korea and other countries to ease their access to the dollars they need, the European Central Bank must offer such swap arrangements to Europe's non-euro countries in order for trade and production processes to continue.

Yes, these are dark times, and all politicians want to protect their voters. But Europe's greatest post-war leaders understood that keeping the wider view of Europe in mind is the best way to achieve this goal. As at so many times before, now – with all of our economies in peril – is a moment for decisive French leadership.

Ternopil Election Delivers Protest Vote

The Ternopil Oblast council elections delivered a bloody nose to the orange forces, in what is being interpreted as a protest vote over the effects on Ukraine of the global financial and economic crisis. On a more sinister note, the picture may have been further skewed by ballot rigging.



▲ The Ternopil oblast marked in red..

The council elections for the western oblast of 1.1 million citizens were held on 15 March, 2009. The Bloc of Yulia Tymoshenko (BYuT), which had previously controlled the council, came in fourth place with 8.12 percent of the vote.

In first place was the far right-wing Svoboda party which now controls 50 seats on the 120-seat council. Second placed was United Centre (the party of the head of the presidential secretariat, Viktor Baloha) with 14.32 percent of the vote, followed by the Party of Regions with 9.78 percent.

BYuT is challenging the validity of the results amidst allegations of electoral fraud. Having withdrawn its support for the elections a day

before polling day, BYuT officials noted that “only an hour before the end of voting, 20 percent of ballot papers were thrown in.”

Irrespective of the legality of the vote, political commentators are viewing it as a classic example of a “protest vote” from a disgruntled electorate that is feeling the impact of the recession.

One blogger put things into perspective saying, “As the Tymoshenko Bloc withdrew before the vote I think getting 8 percent was actually quite good.”