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and analysis from the Bloc of Yulia Tymoshenko (BYuT)

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IMF Payment Imminent as Mission Returns to Kyiv

The International Monetary Fund (IMF) mission has announced that it will return to Kyiv this week, to resume talks on granting Ukraine the next tranche of the \$16.4 billion credit facility announced last October. Payment of the next tranche is reliant on parliament passing the necessary legislation to meet the IMF's fiscal requirements.



An IMF statement read:
"The IMF has received strong assurances by the President and the Prime Minister about their intention to obtain parliamentary approval, during the week of 13-17 April, of laws to strengthen the financial position of the pension fund and Naftohaz, and laws agreed with the IMF and the World Bank to facilitate the implementation of the bank restructuring strategy."

▲ The Verkhovna Rada where remaining legislation needs to be passed before the IMF will relinquish a second tranche payment to Ukraine. The return of the IMF mission to Kyiv this week is a positive sign and politicians are confident that progress will be made.

Last week parliament approved several anti-crisis laws (see next

article) before lawmakers from the Party of Regions disrupted further bills from being passed by blockading the speaker's podium.

The emphasis now is to pass the remaining legislation which includes measures to balance the finances of the state pension fund and national gas company.

"This is a most positive development and the culmination of much hard work," said Prime Minister Yulia Tymoshenko. "We are confident that Ukraine's parliamentary forces will not squander this opportunity and we will pass the necessary legislation."

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Ukraine received the first tranche payment of \$4.5 billion last November. However, the second tranche of \$1.86 billion, due in February, was delayed pending the passage of laws to tighten fiscal spending.

Last week, leaders of the G20 countries met in London and pledged to triple the IMF's war chest to \$750 billion. IMF Managing Director Dominique Strauss-Kahn said that the huge increase would bolster the IMF's firepower to help economies around the world respond to the global financial crisis.

Regions Put Feet on the Street

Thousands of supporters of the Party of Regions (PoR) were on the march in Kyiv last Friday, demanding the resignation of President Viktor Yushchenko and the government of Prime Minister Yulia Tymoshenko. But this was no re-run of the popular protests that characterised the Orange Revolution – it was cynical political posturing at its worst.



Photo: Sergey Vlaykin

▲ The return of “rent-a-mob.” The Party of Regions takes to the streets in Kyiv.

The call for street protests followed a week when 401 out of 450 lawmakers in the Verkhovna Rada voted to bring forward the date of the presidential election, originally scheduled for January 2010, to 25 October. A day later, PoR lawmakers, led by former Prime Minister Viktor Yanukovich, stormed the speaker’s podium amidst cries of “End the crisis, leaders resign!” Banners were unfurled and the work of parliament effectively stopped.

This move could not have come at a worse time, as it thwarted lawmakers from passing the anti-crisis legislation needed for the International Monetary Fund (IMF) to release the second tranche of a \$16.4 billion bail-out loan for Ukraine’s creaking economy.

Likening the opposition party’s behaviour to that of “Somali Pirates,” Prime Minister Yulia Tymoshenko said the blockade “is halting legislative action against the crisis and is hurting every citizen of Ukraine.”

“It is irresponsible behaviour of the worst kind,” said First Deputy Prime Minister Oleksandr Turchynov.

Before last week’s disruption, parliament approved some of the anti-crisis measures demanded by the IMF. These included raising excise duties on cigarettes, alcohol and diesel fuel which should net the state some UAH 6 billion. But outstanding is legislation needed to prevent a pension fund deficit and balance the finances of the state gas company, Naftohaz Ukrainy.

Cross-Party Support Spurned

The PoR has spurned the premier’s invitation to join the government in working on a cross-party package of anti-crisis measures. Bloc of Yulia Tymoshenko (BYuT) lawmaker Serhiy Mischenko, said that the government had presented 40 anti-crisis bills to parliament, of which 23 had been adopted despite attempts by the PoR to hold up their passage through committee meetings.

Playing with Fire

“Support from the IMF is hugely important,” said Hryhoriy Nemyria, Deputy Prime Minister, “as financial assistance from other bodies, such as the World Bank and European Bank of Reconstruction and Development, is contingent on the IMF payment.”

Meanwhile, the PoR appeared to be content on scoring political points ahead of elections rather than saving the economy. Once again they bussed in protestors, many of whom were reportedly paid UAH 150 a day to march through the capital.

Mr Yanukovich said his party would suspend protests until 14 April, which should provide ample time to secure the next tranche payment from the IMF. Hopefully, his party will now cease trying to score points, stop playing with fire, and get behind the legislation needed to tackle the effects of the global financial and economic crisis.

EU Backs Pipeline Modernisation

Last week, Vladimir Chizhov, Russia's ambassador to the EU, blasted the proposal agreed with the EU on 23 March to upgrade Ukraine's gas pipeline network. The EU's commitment to modernise Ukraine's ageing gas transportation system has unsettled Russian officials, and resulted in Russian President Dmitry Medvedev postponing gas talks which were scheduled to take place in Moscow this month. Ukraine's Prime Minister, Yulia Tymoshenko, moved to reassure Russia's leaders that the modernisation project does not exclude Russian involvement.

The agreement signed in Brussels by President Viktor Yushchenko and European Commission President José Manuel Barroso, envisages the EU committing €2.5 billion to improve the management and capacity of Ukraine's gas transportation network. Although Ukrainian experts believe that up to €5.5 billion is needed to fully upgrade what is Europe's second largest pipeline network.

Significantly, the EU commitment to modernise Ukraine's 37,600 km long pipeline network and increase its capacity (by 60 billion cubic metres to 180 billion cubic metres per annum) is confirmation that the EU intends to rely on Ukraine as its main gas supply route for the foreseeable future. Currently, some 80 percent of Russia's gas exports to Europe flow through Ukraine, which accounts for 20 percent of the EU's annual consumption.

The EU endorsement serves to integrate Ukraine closer to Europe and this year the former Soviet-bloc country expects to join the European Energy Community. This body, created in 2005, establishes a single regulatory framework for trading energy across southeast Europe and the EU, setting common trade rules for producer and consumer nations. On receiving membership, Ukraine will ensure that its energy laws comply with market economy standards by 2012.

Ruffled Feathers

The Russian delegation that attended the joint European Commission-Ukraine pipeline conference revealed its hand by leaving early. According to statements from the Kremlin, Russia feels that it is being ignored. Russian Prime Minister, Vladimir Putin, criticised the agreement, insisting that it was impossible to discuss gas transit issues through Ukraine without Russia, as it was the source for the majority of gas moving through Ukraine's network.

Mr Putin said, "If Russia's interests are being ignored, then we will be forced to revise our relationship with our partners. We really do not want things to reach that level. But the main point, which I would like to emphasise, is that trying to solve the problem of increasing gas supplies – gas which is Russian – is meaningless. We want this signal to be heard, we are ready for constructive work with all of our partners."

At a Meeting of the Security Council, President Medvedev went a step further by postponing the inter-governmental gas talks, which were scheduled to take place in Moscow this month. "These talks will take place after we clarify respective issues that have just come up," he said.

Both EU and Ukrainian officials were keen to assuage the concerns of Russian officials who consider that they have been sidelined.



▲ Fully committed to the modernisation of Ukraine's gas transportation system. President of the European Commission José Manuel Barroso (right) joins President Viktor Yushchenko and Prime Minister Yulia Tymoshenko at the pipeline modernisation conference in Brussels on 23 March.



Prime Minister Tymoshenko said that Russia would not be excluded from the pipeline modernisation programme. "Russia, like other countries, can also take part in investment projects, in the reconstruction and modernisation of Ukraine's gas transit system," she said.

"We are working for safe and attractive conditions for the transit of Russian gas," said EU Energy Commissioner Andris Piebalgs. "There is no intention to exclude Russia." Mr Barroso echoed these sentiments saying that the two sides would welcome Russia as a participant in Ukraine's gas transportation system modernisation project, along with other partners.

"The modernisation of Ukraine's gas transport system – and this means particularly its expansion – can't take place without Russia," said Mykola Martynenko, Ukraine's parliamentary energy committee chairman. "The Russian reaction is based on emotions and false impressions."

An energy analyst based in London, told *Inform*, "The agreement shows that the EU has not lost faith in Ukraine and delivers a near fatal blow to Russia's aspirations to wrestle control of Ukraine's gas transport system."



▲ No cause for alarm. Prime Minister Tymoshenko has extended an invitation to Russian companies to participate in the modernisation project.

"It's good for Ukraine, good for Russia as a supplier and good for the EU."

Russia's EU ambassador called the proposal "unprofessional" and suggested that it called into question the 10-year gas agreement signed between Ukraine and Russia in January.

"I don't see any serious reason for this alarmist approach... It's good for Ukraine, good for Russia as a supplier and good for the EU," said Deputy Prime Minister Hryhoriy Nemyria last week. "The important thing about the Brussels declaration is the recognition of the importance of the modernisation of its gas transport system and Ukraine as an indispensable pillar of the European energy infrastructure."

Courting the World's Second Largest Economy

Prime Minister Yulia Tymoshenko has been busy promoting Ukraine and seeking investment. Her most recent foreign visit was to Japan where she met with political leaders and representatives of the country's business elite. The visit built upon last February's meeting in Kyiv with leaders of major Japanese corporations and paves the way for increased Japanese investment in Ukraine.

Accompanying the premier on the visit were Deputy Prime Minister Hryhoriy Nemyria, Minister for the Economy, Bohdan Danilishyn, and Vitaliy Haiduk, the head of a group of advisors for the prime minister and the coordinator of the inter-governmental Ukrainian-Japanese cooperation.

Addressing Japanese business leaders, the premier outlined a number of areas ripe for investment. Principal amongst these were energy and agriculture.

Ms Tymoshenko praised Japan for its energy efficiency, acknowledging that it is 19 times more energy efficient than Ukraine. She then invited Japan to join the EU and other countries in helping to modernise Ukraine's gas transportation system and called for deeper cooperation within the framework of the Kyoto protocol, citing the recent deal to sell Japan surplus carbon credits.



Carbon Credit Bonanza

Earlier this month, Japan purchased carbon credits equivalent to 30 million tonnes of greenhouse-gas emissions from Ukraine. Although the total cost of the deal has not been disclosed, energy experts believe that the credits will fetch \$7-\$10 each.



▲ When times are tough you need to make opportunities happen. The premier's visit to Japan has forged deeper economic and political ties. Ms Tymoshenko is pictured above with Taro Aso, Prime Minister of Japan.

Under the 1997 Kyoto agreement, in which nations agreed to keep within set emission-reduction targets, countries expecting to exceed their target can purchase pollution credits, called Assigned Amount Units (AAUs), from countries that have surplus allowances. Ukraine finds itself in possession of surplus credits as these were calculated on a nation's emission levels in 1990. Since then, Ukraine's industrial base has contracted, therefore reducing its emissions and freeing up credits. Ukraine is expected to have about 1 billion

metric tonnes worth of surplus greenhouse-gas permits in the five years through to 2012.



A condition of the sale of AAUs is that the proceeds are ploughed into environmental projects under the auspices of a Green Investment Scheme.

"We welcome the contract on emission licences because it will also ease the environmental problems in Ukraine," said Ms Tymoshenko, "I am interested in transferring more licences." In return, Taro Aso, Japan's Prime Minister undertook to send representatives of Japanese environmental companies to Ukraine.

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Agricultural Opportunity

Ms Tymoshenko also called for investment in Ukraine's agricultural sector, reminding investors that Ukraine has one-third of the world's black soil. In particular she outlined a role for Japan to participate in building new grain elevators to store and process grain.

During her time in Japan, Ukraine's premier also met with Finance Minister Kaoru Yosano, Japanese financiers, and visited a plant belonging to electronics giant Panasonic.

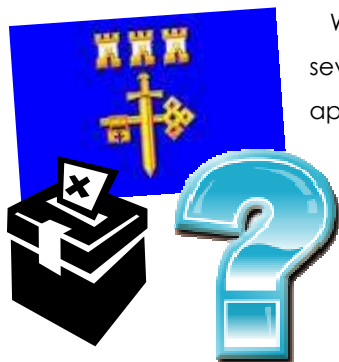
"The visit was a great success, forging stronger economic and political ties with the country that has the largest and most diverse economy in Asia, and which is second only in the world to the US," said Mr Nemyria.



▲ Deputy Prime Minister, Hryhorii Nemyria: the man credited in transforming the premier's image abroad.

Something Fishy in the Oblast of Ternopil

Political watchers in Ukraine were stunned by the sudden departure of Ihor Popov, the head of the Committee of Voters of Ukraine (CVU), to become the deputy head of the presidential secretariat. His appointment came just six days after the Ternopil by-elections. This move from independent election monitor to presidential official appears all the more questionable given allegations of widespread electoral fraud in the Ternopil election. This odd development was not lost on Viktor Ukolov, the Bloc of Yulia Tymoshenko (BYuT) lawmaker, who commented on Mr Popov's strange defection in his blog on *Ukrayinska Pravda*, entitled "Prostitution Forever."



Why anybody would want to join the presidential secretariat with only seven months to go before the 25 October presidential election, appears at first baffling. Unless, of course, Mr Popov is being tasked to

build on the success of the presidential secretariat's alleged use of "adminresursy" (administrative resources), in the 18 March Ternopil by-elections, to influence the upcoming presidential elections. "Adminresursy" could be used to improve Viktor Yushchenko's poor ratings of 3 percent, or bolster his protégé Arseniy Yatseniuk (if Mr Yushchenko decides not to stand). The

latter, who appeared recently on an *ITN News at Ten* (British TV) news story with the curious title of "presidential candidate," is viewed by presidential strategists as the best candidate to undermine Yulia Tymoshenko's support in the orange heartland of western and central Ukraine.

It would have been incredulous to believe that Mr Popov did not know about his pending appointment as he oversaw the elections. Nor when he went on record saying that the Ternopil by-elections were held in a "free" manner without any violations. In stark contrast, BYuT is contesting the results after refusing to participate in the election.

The victory of the neo-fascist Svoboda (Liberty) party (in the 1990s it was registered as the Social-National Party and had a party flag with a swastika) was not surprising as it was a protest vote in a highly nationalistic region. As *The Economist* noted, "local elections are a way for voters to fire a warning shot to incumbent governments, rather than a firm statement of future voting intention."

The other results were more suspicious. The election gave United Centre (a virtual party lacking a firm ideology and linked to presidential secretariat head Viktor Baloha) second place with 14.2 percent after pre-election polls gave it a low 4 percent. The Party of Regions (PoR) came in an even more surprising third with 9.8 percent.

Is it a pure coincidence that the first name on United Centre's list in the elections was Ternopil governor Yuriy Chyzhmar? Also, is it surprising that United Centre is the only wing of the Our Ukraine-People's Self-Defence bloc to support a grand coalition with the PoR? It therefore had a vested interest in showing that the PoR had greater support (9.8 percent) than BYuT (8.1 percent). Also, "Adminresursy" is believed to have affected the former presidential party Our Ukraine. In the Ternopil oblast, its support haemorrhaged from 35.2 percent in the 2007 pre-term election to 5.5 percent.

The link between Mr Popov's appointment and the CVU's positive endorsement of the Ternopil elections was analysed by former Our Ukraine consultant Ihor Zhdanov in his 25 March blog. He pointed out that the CVU reached its conclusion about the alleged freeness of the Ternopil elections without conducting "any serious observation of the elections and therefore it had no right to make such a loud statement with a one-sided conclusion."



The CVU never undertook – according to its own report – an election observation mission in Ternopil. The oblast has 1,170 election districts. The maximum number the 5 CVU groups could have covered on election day was 12 each (total of 60), which is a drop in the ocean, covering only 5.1 percent of the districts.

The reports of the 5 CVU groups are not even posted on its website, raising further doubts about the veracity of the final conclusion on the alleged freeness of the elections. Nevertheless, CVU official Oleksandr Chernenko could claim “I have long not seen such quiet, nicely organised elections...”

Two of only a few positive outcomes of the Orange Revolution have been free elections and a free media. Is the first of these to be now sacrificed in the interests of what would seem to be the only objective of the presidential secretariat, which is to block Ms Tymoshenko's election? Even at the expense of letting in neo-fascists – as in Ternopil – and using “*adminresursy*”? If so, this is indeed a sad day for Ukraine.

Choosing a Pragmatic Path



“Containing Russia” was the title of a May-June 2007 article by then opposition leader Yulia Tymoshenko in the prestigious *Foreign Affairs* journal. Western policy makers would do well to re-read the article.

Two months before the article was published, and in the same month that then opposition leader Yulia Tymoshenko visited the US, she mobilised 430 votes in parliament in support of a law that defended Ukraine's gas pipelines from being taken over by a foreign entity. At the time, Prime Minister Viktor Yanukovich was thrown off guard by his party's (the Party of Regions) support for the legislation.

Two years later, Prime Minister Tymoshenko has won a second round of the battle to ensure Ukraine retains control over its pipelines. During her recent visit to Brussels, she, together with President Viktor Yushchenko, cemented an agreement with the EU to renovate the pipelines with international financing while retaining them in Ukrainian hands.

Russia's reaction in cancelling a forthcoming inter-governmental meeting with Ukraine showed the degree to which it was unhappy at Ukraine's continued ability to maintain control over its pipelines. Prime Minister Tymoshenko replied that, “Russia did not lose, Europe has not lost now. Ukraine has simply defended its national interests in a graceful and clear manner by defending its main gas transportation route.”

Long-term Russian strategy in the CIS has been to take over gas pipelines in neighbouring states, a strategy that in 2006 and 2007 led Armenia and Belarus respectfully to transfer ownership of 50 percent of their gas pipelines to Gazprom. Only Azerbaijan and Ukraine in the CIS have successfully withstood Gazprom's pressure.

Ms Tymoshenko's ardent defence of Ukrainian sovereignty over its gas transportation network undermines the campaign launched in the summer of 2008 by the presidential secretariat, alleging “treason” on her part and being in the pocket of Prime Minister Vladimir Putin. The agreements signed in Brussels on 23 March show these allegations to be pure hogwash.

After becoming prime minister, Ms Tymoshenko's views on Russia have not changed. Whilst there has been a distinct thaw in her relationship with Russia, this owes much to her having



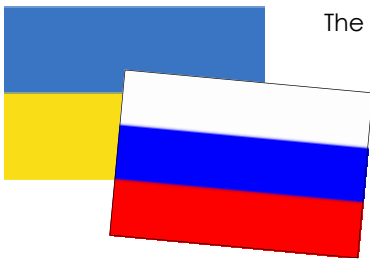
taken a pragmatic approach and forging a new relationship with the Kremlin based upon mutual respect.

Every country's foreign policies are a mixture of realism (in Ukrainian discourse this is often defined as "pragmatism") and ideals-driven liberalism.

The EU's policy towards Russia and Belarus is a typical example of the mixing of realism and liberal idealism. As an international organisation, the EU's "European values" have little in common with those in place in Russia or Belarus. Nevertheless, the EU and Russia, the two biggest actors on the European continent, have "interests" that require a dose of realism. For example, the authoritarian stance of the regime in Minsk has not prevented the EU from sending an invitation to Belarus to join the EU's new Eastern Partnership initiative, which will be unveiled in Prague on 4 May.

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How does this combination of pragmatism and idealism transplant to the Ukrainian case?



The political priority for Ukraine is to address the global financial and economic crisis which is severely impacting the country and promises a gloomy outlook for the second and third quarters of 2009. A further priority is to ensure that Ukraine's relations with Russia (and the EU) are not damaged each year by January gas crises. Ms Tymoshenko has moved towards securing this goal with the ten year gas contract signed in January, and again this month in obtaining international financial support for upgrading Ukraine's gas transportation system without losing sovereignty over it.

How will the government's pragmatism shape Ukrainian foreign policy?

The larger orange coalition, established in December 2008, will maintain Ukraine on its pro-western European trajectory with the real prospect of a Free Trade Agreement signed this year during the life of Sweden's presidency of the EU. NATO will no doubt assume a slower trajectory, particularly now that it has twice postponed extending a Membership Action Plan (MAP) to Ukraine.

This slower pace towards NATO membership has less to do with Ukraine than with NATO postponing any decision until after the presidential elections. Indeed, the last NATO ministerial summit outlined plans to by-pass MAP and deepen Ukraine's reforms through annual plans developed by the NATO-Ukraine Commission.

What about the Russian vector and can Ms Tymoshenko successfully "contain Russia"?



Good relationships with one's neighbours are a priority for every country, no less for Ukraine. Russia itself pursues good relations with the West but dissents from supporting the West when it feels that its national interests diverge. Similarly, a more pragmatic relationship between Ukraine and Russia does not preclude a divergence of interests, as on the government's approach to seeking EU assistance for modernising Ukraine's pipelines. This is nothing new in foreign affairs. Canada which sits next to a much larger US seeks good relations with its American neighbour but sometimes dissents, as when Ottawa refused to support the 2003 invasion of Iraq.



Although weakened by the price of oil dropping three-fold since July 2008, Russia remains a serious actor in Ukraine. Russia retains influence through its energy card, strong language and cultural ties in the industrial east of the country, and separatism in the Crimea where the Black Sea Fleet remains based for a further eight years.

One must remember Leonid Kuchma came to power in 1994 on a platform claiming that he could deal with Russia better than incumbent Leonid Kravchuk. But, he couldn't. It took Borys Yeltsin three years before he travelled to Kyiv to sign a treaty recognising Ukraine's border and resolving the Black Sea Fleet question, and it then took another two years for Russia's parliament to ratify them. "Containing Russia" therefore took Mr Kuchma his entire first term.

Ms Tymoshenko will "contain Russia" in no less a similar pragmatic manner without losing sight of defending Ukraine's national interests. Sacrosanct for the prime minister is Ukraine's sovereign right to decide its foreign policy, Ukraine's territorial integrity, energy security and – as seen in Brussels – maintaining Ukrainian sovereignty over its energy pipelines.

At the same time, Ms Tymoshenko understands the need for Ukraine and Russia to be reliable partners and for Russia not to be isolated. In Brussels her voice was notably loudest in calling for Russia's participation in the gas pipeline modernisation project. Her language was one of conciliation. The words of a true pragmatist.

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