



EU Warns of Potential Gas Crisis

The European Commission President José Manuel Barroso has warned EU states to brace themselves for another gas supply crisis if Ukraine is unable to finance the purchase of sufficient natural gas from Russia's state-run gas firm, Gazprom, to replenish its underground stores.



▲ Pressing Ukraine's case in Luxembourg. Prime Minister Yulia Tymoshenko and Deputy Prime Minister responsible for European integration Hryhoriy Nemyria.

Mr Barroso's warning followed Prime Minister Yulia Tymoshenko's meeting last week in Kyiv with Frank-Walter Steinmeier, the Minister of Foreign Affairs for Germany and his Polish counterpart Radoslaw Sikorski. Top of their agenda was how the EU may be able to assist Ukraine to maintain necessary levels of gas in its underground storage facilities in Western Ukraine. This is vital as Ukraine is looking to raise around \$4 billion to purchase gas for storage, so as to avoid any supply disruption to EU countries in the winter months.

The day before the meeting with the foreign ministers, Alexander Ananenko, Deputy Chief

Executive of Gazprom, told reporters, "Ukraine isn't pumping gas into its gas storage facilities in due amounts."

Ukraine's storage facilities have a capacity of around 32 billion cubic metres of natural gas. Historically, they have been filled in the summer months ahead of the high peak demand from EU countries in the winter. Some 80 percent of Gazprom's natural gas to Europe transits via Ukraine's gas transportation system, which is the second largest in Europe. But officials from Naftohaz Ukrainy – Ukraine's national gas company – say it has 16 billion cubic metres of gas left to pump this year in addition to monthly gas purchases used mostly for industrial needs.

The demand for gas in the country has slumped as a consequence of higher gas prices and the recession, both of which have hit Ukraine's manufacturing industry hard.

Anxious to avoid any repetition of the gas shut-off in January that caused a number of European countries to shiver, the EU has been keen to explore scenarios in which it could assist Ukraine. One proposal is that European energy companies effectively pay Gazprom and Naftohaz to purchase gas and store it in the underground facilities. The companies could then sell the gas on spot markets in the winter to recoup their investment.



▲ Concerned. European Commission President José Manuel Barroso.



Oleksandr Paliy, a political analyst, was quoted in the *Financial Times* as saying, "It doesn't make sense for Ukraine to pump gas into its storage tanks which is not necessary for the economy. It makes sense however to pump it for those who need the storage, namely the Europeans."

Another option being explored is a \$4 billion loan facility from European banks which would enable Ukraine to purchase three months of gas from Russia. It is understood that Ukraine, the EU and Russia are working jointly on this option after Russia refused to make a loan on its own.

On Friday, Mr Barroso warned that Europe must not sleepwalk into another gas crisis. "We have also advised vulnerable member states to take immediate measures to respond to a possible crisis," he said.

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Deputy Prime Minister Hryhoriy Nemyria commented, "This is an important issue not just for Ukraine or Russia, but for Europe. And it is precisely because we are committed to being a reliable, stable energy partner, that we are so anxious to find a resolution that will benefit all. It is a European problem and it needs a European solution, involving Ukraine, Russia and the EU."

Funding looks tight going forward. This month, the National Bank of Ukraine printed and converted UAH 3.8 billion to \$500 million. The move helped Naftohaz to settle its \$650 million May gas bill.

Meanwhile, Prime Minister Yulia Tymoshenko has proposed boosting the capital of Naftohaz to limit gas price increases to domestic consumers and to strengthen the company. Such a move may be necessary as Ukrainian consumers buy gas at subsidised levels, well below the cost Naftohaz purchases it from Gazprom. Restructuring Naftohaz's finances is also a stipulation of the loan conditions imposed by the International Monetary Fund.

On Course for Association Agreement by 2010

Speaking during a state visit to Serbia, President Viktor Yushchenko expressed his hope that the EU and Ukraine would sign an Association Agreement within the next six months. His comments followed Prime Minister Yulia Tymoshenko's visit to Luxembourg for the 13th sitting of the Ukraine-EU Cooperation Council. Whilst there an "Association Agenda" was signed, which outlines a road map for future cooperation between the EU and Ukraine.



▲ Looking towards Europe, Ukraine's President Viktor Yushchenko.

At last September's EU-Ukraine Summit in Paris, Ukraine was offered a newly titled "Association Agreement," which replaces the Partnership and Co-operation Agreement (PCA). The Association Agreement is designed to bring Ukraine and the EU closer on foreign policy and security issues, including the principles of independence, sovereignty, territorial integrity and inviolability of borders. It will also enhance cooperation on a broad range of aspects of justice, liberty and security, including migration issues.

An integral element of the agreement is to conclude a "deep and comprehensive" Free Trade Agreement. With this goal in mind, last April, Ukraine embarked upon negotiations towards a ▶▶▶

broad-based Free-Trade Agreement with the four European Free Trade States (Iceland, Liechtenstein, Norway and Switzerland).

Talks have progressed well and confidence is high that the Association Agreement could be concluded by the end of this year.

Speaking in Luxembourg, Prime Minister Tymoshenko called for the Agreement to outline "a European prospect for Ukraine." The premier said that such a declaration would consolidate Ukrainian society.

Many observers consider that this might be a step too far for the EU as a number of states in the 27-nation bloc are known to be opposed to any further expansion in the near future. But pointing out the progress made at the meeting – particularly in areas such as security and defence policy – Ms Tymoshenko said, "I hope we will manage to sign it by the end of the year."

Pleased with the government's progress in this area, President Yushchenko said "we have broken a dam that blocked Ukraine's integration with the European Union."

Transport and Communications Minister Resigns

Last week, Ukraine's Minister for Transport and Communications Yosyp Vinsky resigned over alleged serious disagreements with Prime Minister Yulia Tymoshenko. Mr Vinsky, who faced abuse of power accusations, also quit the Batkivschyna party (Ms Tymoshenko's party and the largest faction in the Bloc of Yulia Tymoshenko).

The Transport Ministry's press service reported last Wednesday that Mr Vinsky had resigned over "serious disagreements with Prime Minister Yulia Tymoshenko over political, staff, and economic issues, as well as the ethics of relations between members of the Cabinet of Ministers."

However, Ms Tymoshenko revealed that Mr Vinsky had sought to misappropriate UAH 15 million for a personal advertising campaign – perhaps the forerunner of a bid for the presidency. "If I catch him doing this, ignoring what he promised, and dishonestly handling finances, he will resign," said a steely Ms Tymoshenko. Today in parliament 365 lawmakers out of 434 registered supported Ms Tymoshenko's motion to dismiss him.

President Viktor Yushchenko said that the resignation of Mr Vinsky is linked to ineffective government policy in the transport sector, particularly in the context of Ukraine's preparations for hosting the finals of the UEFA EURO 2012 Football Championship.

"There can be no place for self-aggrandisement or corruption in our government. It will not be tolerated," said Deputy Prime Minister Oleksandr Turchynov.

Lutsenko Reveals Figures on Fighting Corruption

Minister for the Interior Yuriy Lutsenko said that his ministry had revealed a twofold increase in crimes for the first 5 months of the year. There were 4,800 crimes involving the theft of ▶▶▶



▲ Former Minister for Transport and Communications Yosyp Vinsky.

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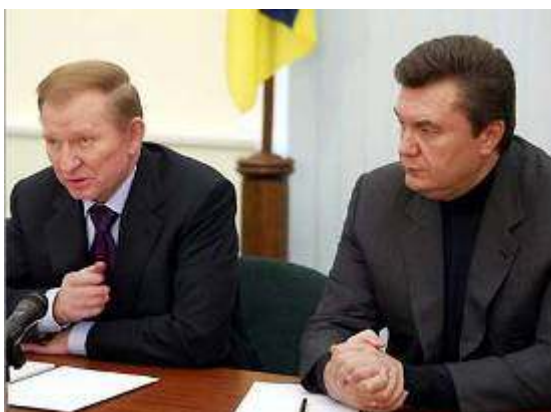
public money totalling UAH 1.5 billion. Mr Lutsenko said that every effort would be made to bring those involved to justice.

Last week Mr Lutsenko also declared his intention to relinquish control of his Interior Ministry during the presidential campaign, saying that he would take a vacation in order to campaign on Ms Tymoshenko's behalf.

"I said that I would [campaign for Ms Tymoshenko] during my vacation, while of course appointing an acting interior minister," said Mr Lutsenko. Also, the leader of the People's Self-Defence faction said that he would ensure the impartiality of the police throughout the campaign. "Rest assured that the police won't support any particular political force," he told reporters on Friday.

Yanukovych Got the Jitters

Up to 2004, Party of Regions leader Viktor Yanukovych had a reputation as somebody to be feared. To all and sundry he resembled a Donbas protégé of TV gangster Tony Soprano. Sporting a turtle neck under a jacket, he looked more like a night club bouncer than a would be president. Only after four years of expensive grooming by US political consultants did Mr Yanukovych's turtle necks give way to shirts and ties. But his mindset and personality remains.

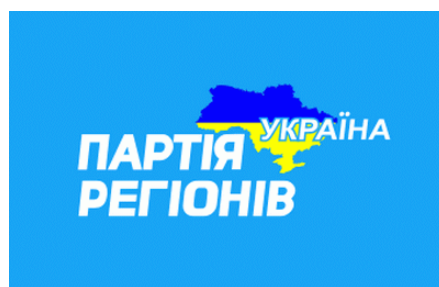


▲ How they were. President Leonid Kuchma and Viktor Yanukovych (left).

During the Orange Revolution, Prime Minister Yanukovych was regarded as somewhat of a weakling. When hundreds of thousands of people poured on to Kyiv's streets to protest against election fraud he passed the buck to President Leonid Kuchma to introduce a State of Emergency. Indeed, Mr Yanukovych demanded that the president forcibly remove Orange Revolution protestors from blocking access to the Cabinet building, rather than take that responsibility upon himself.

Mr Yanukovych also did not have the appetite to transport hundreds of thousands of his own supporters to Kyiv in a counter-revolution. True, there could have been violence between them and the Orange Revolution protesters – perhaps another excuse to justify a State of Emergency. Instead, the small numbers of skinheads and coal miners brought to Kyiv by the Yanukovych election campaign were left to sit it out in unheated buses on the outskirts of the capital.

More recently, Mr Yanukovych's weak character came out during the coalition negotiations with the Bloc of Yulia Tymoshenko (BYuT). The talks broke down in acrimony on 7 June. It was not just a case of there being little trust between Prime Minister Yulia Tymoshenko and Mr Yanukovych; the biggest factor that led to the collapse of negotiations was that Mr Yanukovych shamefacedly backed out from taking upon himself any responsibility, thereby placing his self-interest above that of his country.



Most Ukrainian politicians have never warmed towards the concepts of accountability and responsibility, and Mr Yanukovych is no exception to the rule.



Ms Tymoshenko has taken upon herself all of the responsibilities of government during the worst economic and financial crisis since the great depression of the 1930s. Moreover, she has taken on the burden with elections looming on the horizon. In contrast, just like in 2004, Mr Yanukovich has shied away from taking any responsibility.

Mr Yanukovich nevertheless duplicitously claimed to foreign dignitaries at a meeting of the Yalta European Strategy (YES) NGO, funded by tycoon Viktor Pinchuk, that he stood for Ukraine's unity in order to "deepen reforms and battle corruption." With no hint of irony in his voice, he told YES, "There needs to be order in the country to assist in struggling against the crisis."

Yet Mr Yanukovich will not escape responsibility for the undemocratic proposals put forward by members of his faction, the Party of Regions. The extension of parliament's mandate by two years, changing the parliamentary election law to two rounds with the two leading political forces taking all seats and – most controversially of all – electing the president in parliament, were three proposals made by the Party of Regions.

Dirty Technology

Insinuations that these proposals came from BYuT were the "work of dirty technology," Prime Minister Tymoshenko told *ICTV* in a lengthy interview given on 14 June (a reference to political spin doctors employed by the Party of Regions).

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In withdrawing from the negotiations, Mr Yanukovich appeared to claim the higher moral ground. This, though, was not accepted unequivocally by Ukrainians. The *Gazeta Po-Kievski* (10 June) newspaper commented, "Yanukovich has not fooled anyone: he did not do it for the sake of democracy, but after having calculated the possible benefits."

Two meetings influenced Mr Yanukovich's decision. Firstly, as is usual with the Party of Regions leader, he visited Moscow for "consultations." This belies the rumour mongering that a coalition of BYuT-Party of Regions would have been "pro-Kremlin," as the presidential secretariat had claimed since summer 2008, and used in false accusations of "treason" against Ms Tymoshenko.

The Party of Regions deputy Nestor Shufrych confided to the Shuster Live political discussion programme on *TRK Ukrayina TV* (14 June) that former presidential administration head Viktor Medvedchuk gave legal advice to the Party of Regions, and not to BYuT, during the negotiations.

"Medvedchuk has wonderful relations with Dmitry Medvedev and Vladimir Putin," former President Leonid Kravchuk said. "Dmitry Medvedev's wife Svetlana, together with Vladimir Putin, christened Viktor Medvedchuk's younger daughter Dasha" (*Kyiv Post*, 24 April 2008).

Secondly, in a further act of duplicity, Mr Yanukovich met President Viktor Yushchenko. In exchange for pulling out of the negotiations the president offered the opposition leader the installation of regional governors from his party. These would be able to "provide administrative levers to Yanukovich before the elections" (*Delo*, 10 June). Again, Mr Yanukovich showed his disdain for democratic politics and free and fair elections.

Putting Her Country First

Why did Prime Minister Tymoshenko and BYuT risk going into coalition negotiations after they were warned these could harm them if Mr Yanukovich's aim was only to drag them out, ►►►

withdraw and thereby win political dividends in an election year? Interior Minister Yuriy Lutsenko explained Prime Minister Tymoshenko's thinking in his usual frank manner: "On the one side there are impotents [i.e. Mr Yushchenko], on the other side there are bandits [i.e. Party of Regions] but Tymoshenko needed to work with somebody to adopt legislation in parliament as people did not give her sufficient votes to accomplish this by herself" (*Interfax-Ukraine*, 18 June).

Ms Tymoshenko thought of the country. Bandits think differently.

Presidential Election Set for 17 January 2010



Lawmakers in the Verkhovna Rada have set 17 January 2010 as the date for the next presidential election. A total of 399 out of 442 lawmakers in the 450-seat parliament voted to approve the bill.

Last week, the Chairman (Speaker) of the Verkhovna Rada, Volodymyr Lytvyn, concluded that under the Constitution, January 2010 was the only legal time in which to hold the election.

"The Constitution clearly states that the presidential election must take place in the last week of the last month in the fifth year of the president's term," said Volodymyr Lytvyn, leader of his eponymous centrist bloc. "Let's recall, my colleagues, that the last time this occurred was on 23 January, 2005. This means that the next time [for a presidential election] is going to be in January 2010," said Mr Lytvyn, who said he would refuse to sign any bills to the contrary.

Speaking last week on TV, First Deputy Prime Minister Oleksandr Turchynov was relaxed on the issue. "I have no desire to play with the Constitutional Court or with the President's Secretariat. If they want Viktor Yushchenko to hold onto his position a bit longer – let it be so," he said.

Prime Minister Yulia Tymoshenko has already confirmed her intention to run in the presidential election.

Quote of the week

"If Viktor Yanukovych, Lord forbid, becomes President, we know, who will become Defense Minister, Premier and so on. If Yulia Tymoshenko, God grant it, becomes President, we know too who will be appointed. Yatseniuk is pure Yushchenko with "unknown dear friends", unknown team."

Yuriy Lutsenko, Minister of the Interior and leader of the People's Self-Defence Bloc.