



Premiers Agree Position on Gas

Prime Minister Yulia Tymoshenko had a fruitful meeting with her Russian counterpart Vladimir Putin in Yalta, where the two leaders agreed to tweak the terms of the 10-year gas contract reached in January. In particular, Mr Putin said that Russia would not penalise Ukraine for taking less gas than it had contracted for. Also, as from 2010, Russia agreed to pay market prices for gas transiting through Ukraine's gas pipeline network to Europe.



▲ The Livadiya Palace in Yalta: venue for the CIS meeting of prime ministers.

Gas was a topic high on the agenda of Ukraine's premier as she met with Mr Putin last week at the Livadiya Palace in Yalta – venue for a meeting of prime ministers from the Commonwealth of Independent States (CIS). Since Naftohaz Ukrainy and Gazprom signed last January's groundbreaking gas deal, Ukraine's economy has been hit severely by the economic downturn with industry consuming less gas than anticipated. Contractually, Gazprom has the right to levy

financial penalties on Naftohaz, but Russia's premier, who was instrumental in brokering the January deal, confirmed that Gazprom would waive the penalties.

Mr Putin remarked that Russia was taking into account the effects of the economic downturn and that this was good international practice and "not a sort of insidious exclusive for Ukraine." Mr Putin also soothed EU nerves saying that contracts were in place. "Their strict observance will make it possible to guarantee stable and uninterrupted operation of the whole of the gas transportation system, both Russian and Ukrainian," he said. A good humoured Mr Putin remarked. "It would be very good to meet the New Year without any calamities."



▲ Centre stage at the CIS meeting: Ukraine's premier Yulia Tymoshenko and her Russian counterpart Vladimir Putin. The two leaders had a most productive meeting.

Ms Tymoshenko was clearly pleased with the outcome of their talks. "Ukraine highly appreciates the move that the Russian government took to waive the fines," she said. This helps "balance all of our work in this direction."



Contract Provides Stable Framework

January's gas contract gave Ukraine a 20 percent discount on gas purchased in 2009 with the proviso that Ukraine would move to market prices next year. Significantly, it removed intermediaries – a long-time source of corruption – from the supply chain, establishing direct contractual relationships between Naftohaz and Gazprom.

“Ukraine will for the first time receive a market price for transit of Russian gas through Ukraine to Europe and, accordingly, Naftogaz Ukrainy will receive billions of dollars in revenue.”

“The contract brokered this year has proven to be a reliable framework,” said a British-based energy trader, “the removal of RosUkrEnergo was a major coup for Tymoshenko and establishing market prices in 2010 for supply and transit is perceived as a good thing.

It defuses much of the politics and brings Ukraine into line with the rest of Europe.”

In the new year Russia will pay market prices for gas pumped through Ukraine's gas pipeline network to Europe. “Beginning 1 January, 2010, Ukraine will for the first time receive a market price for transit of Russian gas through Ukraine to Europe and, accordingly, Naftogaz Ukrainy will receive billions of dollars in revenue,” said Ms Tymoshenko.

“Payment for gas transit will increase approximately 60 percent,” said Mr Putin. “We are doing that because it is stipulated in the contract and Gazprom openly agreed to that,” he said.



Prior to Ms Tymoshenko's meeting with Mr Putin, Ukraine's President Viktor Yushchenko wrote an open letter to Russia's President Dmitry Medvedev, asking for the terms of the January gas contract be reopened.

In an indirect reference to Mr Yushchenko's letter, Ms Tymoshenko said, “I understand very well all of the events surrounding the gas contracts in Ukraine. Many in Ukraine, including high-ranking politicians, don't like these contracts, because in preceding years, unfortunately, there was a mega-corrupt model for operations in the gas market.”

Mr Putin reserved some harsh criticism for Mr Yushchenko, calling his antagonistic stance towards the Kremlin, and criticism of Ms Tymoshenko's energy policies, as things “I don't really understand.” During a televised press conference he said that we was “comfortable” with Ms Tymoshenko and that he “always could come to an agreement” with her, even though “she is a tough negotiator.”

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BLOC OF YULIA
TYMOSHENKO

Regions Party Postures on No-Confidence Motion

It is possible that the Party of Regions will seek a no-confidence motion in the government of Prime Minister Yulia Tymoshenko. The vote, which could take place on 5 December, is being interpreted as another campaign ploy to undermine the premier's presidential candidacy ahead of the presidential elections, scheduled for 17 January 2010. The first deputy leader of the Party of Regions Oleksandr Yefremov has announced that his faction has already collected 173 signatures supporting the motion.



▲ The seat of 450 lawmakers – the Verkhovna Rada, Ukraine's parliament.

Most dispassionate observers see the move as nothing more than electioneering. But it comes at a time when the international community needs to see greater political stability as the government seeks to resolve issues with the International Monetary Fund (IMF) caused by the president's signature into law of budget bursting rises in social spending. This move, which was opposed by the IMF and the Tymoshenko government, has caused a \$3.8 billion bail out loan from the IMF to be withheld (see *Inform 131*).

First Deputy Chairman of the Bloc of Yulia Tymoshenko, Andriy Kozhemyakin, noted that this was not the first time the Party of Regions has tried to summon support to bring about a vote of no confidence in the prime minister. This latest attempt is founded upon Ms Tymoshenko's alleged non-fulfilment of populist measures that increase social spending by 20 percent.

It is unlikely that the Party of Regions will be able to muster the 226 votes needed in the 450-seat Verkhovna Rada to bring down the government, as two-thirds of the 72 Our Ukraine-People's Self-Defence bloc lawmakers are unlikely to back the motion. Most appreciate that there is little to be gained. "What we're seeing is political bluster aimed at denting Ms Tymoshenko's image in the run up to the election," said a BYuT spokesperson.

This view is echoed by Brad Wells from investment company Concorde Capital, who writes, "The Regions' initiative represents yet another destabilising move by a major political force ahead of the elections. We see this brinksmanship in word and action continuing as long as there is the temptation to score points with voters and against rival presidential candidates ahead of the elections."

Tim Ash, Head of Research at CEEMA for the Royal Bank of Scotland sees such a motion as pointless posturing. "In the event I am not sure it actually makes that much difference, as even if Tymoshenko's administration loses the confidence vote it will still have to serve in an acting capacity until after the presidential elections."

"The Regions' initiative represents yet another destabilising move by a major political force ahead of the elections."



Please Tell Me Again, Who is the Populist?

Traditionally it has been Yulia Tymoshenko who has been accused of pursuing “populist” policies in Ukraine. Such accusations reached their zenith in Ukraine and abroad during Ms Tymoshenko’s 2005 government.

During the lifetime of the Tymoshenko government that has been in place since December 2007, accusations of “populism” have only been made in Ukraine by her supposed allies – President Viktor Yushchenko – and opponents – Party of Regions leader Viktor Yanukovych. But, this is no longer the case abroad.

In Europe and in Washington, Ms Tymoshenko's former critics, such as Peterson Institute for International Economics Senior Fellow Anders Åslund, are now praising her strategic handling of the economy during the worst global crisis since the Great Depression of the early 1930s.

Inform's Kyiv correspondent has been talking to Western ambassadors in Kyiv in the course of the last few months. They confirm this trend; namely, that Western views of Prime Minister Tymoshenko are now largely positive because of her firm stewardship of Ukraine during the global crisis and her staunch opposition to the social populism of the Yushchenko-Yanukovych “Stop Tymoshenko!” election campaign alliance.



▲ Anders Åslund of the Peterson Institute for International Economics.

There is little connection between reality and hyperbole in the current accusations of “populism” made by this unholy alliance. On 16 November, President Yushchenko signed into law social populist legislation to which Ms Tymoshenko replied that this was “not only pure populism,” but an attempt to undermine the government and put in place a time bomb under next year's budget.

While Mr Yanukovych has supported radical populist measures on social spending during his election campaign tours, his 2010 election programme cynically declares that the 2010 election is an opportunity to “clean out the populists and political adventurers from the Ukrainian government.”

In the 2004 elections, then Prime Minister Yanukovych doubled pensions, which the Tymoshenko government – which came into office in February 2005 – was forced to honour. If elected President, Mr Yanukovych has promised to backdate increased social payments, minimum wages and pensions to 1 November 2009.

Double Standards

President Yushchenko's double standards are little different. Ihor Popov, deputy head of the presidential secretariat and the president's representative in parliament wrote, in the 17 November issue of *Ukrayinska Pravda*, that the next elected president “should be ready to undertake real economic reforms, often which are unpopular.” Mr Popov proclaimed cynically, “the epoch of populism is finished.”

While populism may be over for the *next* president this has not halted the *current* president from supporting Mr Yanukovych's populism.



The support given by the Yanukovich-Yushchenko alliance to social populism has harmed Ukraine's chances of receiving a \$3.8 billion tranche from the \$16.4 billion stand-by loan facility agreed with the International Monetary Fund (IMF) last year. It has also added to the Ukraine fatigue that has been growing in Europe and Washington since 2007 and deepened disenchantment with President Yushchenko. Today, there is an air of the end of 2004 when the West waited for Leonid Kuchma to leave office; except that the West is now waiting for Mr Yushchenko to leave Bankova in February 2010.



Roman Zhukovsky, head of the socio-economic department of the presidential secretariat, calculated that next year these social populist measures would require the apportionment of an additional 2 percent of the GDP or UAH 18-20 billion (*Ukrayinska Pravda*, 15 November). Yet Mr Zhukovsky never explained where the funds would be found?

The president's support for populist measures does not square with two contradictions. The first is his veto of a new law that would allocate UAH 1 billion to combat the flu epidemic. Oddly, he vetoed the law on 16 November, then in the next breath criticised the government's handling of the flu epidemic. This is all the more surprising given that the World Health Organisation praised the government's handling of the flu outbreak.

The president's vetoing of these additional resources is "de facto a war against his own people. A dangerous, immoral war."



▲ First Vice Prime Minister Oleksandr Turchynov.

"He signs a programme and gives an order for immunisation to the value of UAH 2 billion. The programme costs resources. Currently this costs UAH 2.9 billion. For this we need budgetary financing," said First Deputy Prime Minister Oleksandr Turchynov. The president's vetoing of these additional resources is "de facto a war against his own people. A dangerous, immoral war," Mr Turchynov added.

False Claims

Secondly, President Yushchenko's 2010 election campaign makes unjustified claims of having fulfilled his 2004 election programme by pointing to his alleged successes in the socio-economic field.

The president, under the 2006 parliamentary constitution, has no constitutional right to intervene in socio-economic affairs which are under the control of the government. The last four years have seen daily unconstitutional interference in the government's work, and the misuse of the National Security and Defence Council as a shadow government that has sought to undermine three out of four governments that President Yushchenko has worked with.

Mr Åslund wrote in his new book (*How Ukraine Became a Market Economy and Democracy*) that Mr Yushchenko, "never gave Tymoshenko a chance to govern, and he achieved a complete government stalemate. From April (2008), he vetoed nearly all legislation and decisions emanating from Tymoshenko." Mr Åslund continues, "Yushchenko's behavior in 2008 was perplexing. Although he formed a coalition with Tymoshenko, he never gave her government a chance to work. His whole presidency has been marked by legislative stalemate."



Reneging on Pledges

Furthermore, the areas which the president puts down to the fulfillment of *his* programme are usually fields that he sought to undermine when two Tymoshenko governments attempted to implement election pledges. A case in point is the return of lost Soviet era bank deposits. This pledge was included in Mr Yushchenko's 2004 election programme, but became the object of derision as "populist" when Ms Tymoshenko sought to repay the deposits in stages, beginning in January 2008.

In 2004, one of then presidential candidate Yushchenko's "Ten Steps" included "Ensure Priority Funding for Social Programmes." When the 2005 and 2007-2009 Tymoshenko governments, prior to the global crisis, sought to implement funding for social programmes, Ms Tymoshenko was again accused of "populism" by the president.

Also, the president has claimed credit for the introduction of social programmes when in reality he has only paid attention to the issue in the run up to the upcoming election. "We made considerable social changes. We took care of orphans... Unemployment is the lowest of the 18 years of our independence. Living standards are the best in 18 years," President Yushchenko claimed.



▲ On his way out: President Yushchenko

Another initiative was to "Increase the Budget by Decreasing Taxation." The president's report claims that the budget has increased from UAH 90 billion in 2004 to UAH 220 million today and that the sources of this higher budgetary income are proceeds from privatisations, a reduction in the shadow economy and higher foreign investment. But progress in these areas are again largely due to the work of governments, and not the president who has sought to block the government's privatisation programme, most recently by halting the sale of the Odessa Portside chemical fertilizer plant. Mr Åslund wrote that the president "spoke like an old-style Socialist" when he vetoed the government's privatisation plans and he supported an anti-privatisation Socialist Party member as head of the State Property Fund.

When you take all this into account, you must ask yourself who is the populist? It is no small wonder why respected economists like Mr Åslund have changed their tune.

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